THE A.B.C.

OF

CENTRAL BANKING

With Special Reference to India and Hyderabad

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FOREWORD

I HAVE been asked by my friend, Nawab Mir Nawaz Jung, a distinguished member of the Hyderabad Civil Service, at present Financial and Railway Secretary to the Government of H.E.H. the Nizam and the co-author of this book, with the well-known economist, Professor S. K. Iyengar, to write a short *Foreword* to their book on "The A.B.C. of Central Banking". I do so with pleasure. Many of the views expressed in this work are provocative of thought and some of them may not be acceptable to all, being still in the field of advanced theory. The general principles of banking are brought out clearly on pages 5 to 39. Apparently there are many extracts, but this is perhaps unavoidable in a highly technical subject like central banking. There is no doubt that in the future, banks will play a greater part in our economy than they have played in the past. The feudal economy of British India as of Hyderabad is being invaded by money and the replacement of barter by money leads in its wake to the growth of banks. Popularly, the two main functions of banks are to provide convenient means of payment—bank money or deposits—and short-term capital to finance the shorter cycles of operations of producers and traders. Those banks which directly finance the working capital of production and trade are in effect retail shops of short-term finance. To increase the liquidity of these retail shops and to bring about payments from one such shop to another, they keep balances at a larger bank or banks. The latter act as wholesalers of credit when they lend to the retail shops which in turn lend to the public. The head office of a bank with branches simply acts as the bank of the local offices. The larger banks themselves keep balances at a common bank or banks. Such a bank is generally called a "central bank". But the responsibilities of a central bank are much wider in fact. The purchasing power of the currency of the country is in its hands, and as the authors say on page 73,

"we require an apex financing institution:

(1) for adjusting sluice gates of the financial reservoir in view of the needs of each avenue of investment as well as of the condition of the reservoir itself, and

(2) for insuring an adequate storage of money in the reservoir; if the usual supply proves inadequate, finance

will have to be manufactured—if the people should live and live happily by getting adequate supplies of purchasing power in view of numbers and the general standard of life." The authors wish the Hyderabad State Bank not only to discharge the function of a bankers' bank but also *all* the responsibilities entrusted to and expected of the Reserve Bank of India. As is well known, Hyderabad has a population of 16 millions. If this feudal economy rapidly emerges into an industrial economy, then it does not need much imagination to realise what the future of banking is likely to be in H.E.H. the Nizam's Dominions. One can, therefore, expect in future the Hyderabad State Bank to perform *all* the functions of a "Central Bank" and be the nursery as well as the guardian of many local banks of various types. When we consider the functions which banks have to play, we must not neglect the active part that they perform in the transformation of a feudal economy into an industrial economy. Banks are not only sellers of short-term finance: they are also *manufacturers of that commodity* (as the authors have already said). In addition to maintaining the volume of their loans by lending new ones when the old are repaid, banks can give birth to additional loans. This can take place in the short period but the continual creation of credit is of particular importance in the long run. Credit acts like the "black knight" in *Ivanhoe*, coming to the rescue when absolutely necessary for preventing defeat, but otherwise cheering on. The general tendency is for credit to expand with the level of economic activity in case "cash" should prove incapable of commensurate increase in quantity. For example, on 1-9-1939, the "cash" with the scheduled banks in India was Rs. 7 crores while the advances outstanding were 101.52 crores (cash backing being less than 7 per cent.) and the demand and time liabilities were respectively 134.36 and 102.24 crores; and the position on 25-5-1945 was: cash 31.8 crores, advances outstanding 276.3 crores (cash backing being more than 11 per cent.), demand and time liabilities 620.54 and 230.67 crores. These figures clearly show that *per unit of cash* the credit created by the scheduled banks was less in 1945 than in 1939, this in spite of the enormous increase in economic activity, the main reason being the phenomenal rise in note issue. It is very noteworthy that the authors have brought out this point very clearly on page 73 and onward. It would be interesting to peruse the history of

American banking development from this angle, and my own feeling is that even in India such a development had occurred.

The great trouble has been the incapacity of "cash" to increase in tune with currency requirements. The increase in the ratio of credit to cash has been made possible by them so that banks *can* lend more per unit of cash assets without increasing the risk of being unable to meet the probable claims for cash on them. It will be noticed that in all the principal countries in the nineteenth century, banking development has followed certain well-defined principles of evolution. Smaller banks have been amalgamated into larger banks: in some cases the smaller banks have been eliminated by competition. Competitive banks of the earlier phases of banking history in Europe and America were fairly stable in the short run but were inherently unstable in the long run. It was unstable in the sense of being self-destructive. There was a self-generated upward trend in the concentration of banking in a few major units. Each successive bank crisis due to short period credit cycles and the longer trade cycle eliminated a number of banks that failed to satisfy the public's increased liquidity preference for gold or legal tender money in times of crisis. Banking competition for customers was self-destructive because it led to expansion of deposits and note issues and reduced liquidity of many banks below the level sufficient to satisfy the liquidity preference of the public when such a preference increased frequently as a result of the preceding credit and note inflation itself. The resulting crisis caused a selective mortality amongst banks. The smaller ones tended to go bankrupt while the larger ones tended to survive simply because they had more customers so that the mutual claims of the customers could be settled by transference of deposits of large banks from one customer to another without involving a payment to another bank. Also the mere size of a large bank frequently caused other banks or the Government to come to its assistance when it was in temporary difficulties so as to prevent a complete destruction of bank money and credit and the resulting paralysis of trade and production. The comparative size of safety gave stimulus to amalgamation of smaller banks into larger ones. Thus through a number of causes, there was a movement of concentration of banking control, the principal determinant being, however, the inherent instability of competitive banks.

Integrated banking meant that an individual bank could lend more for each unit of its cash holding as time passed on without increasing the risk of failure. These aspects of banking development have been dealt with by the authors in their chapter on Apex Finance Here is a sector on which light was needed—where theory could analyse so that we who are late comers could benefit. It ought to be clear to all readers from the analysis given above and from the pages of this volume, that banks act as a source of new finance and contribute to the capital development of our country by financing the increasing working capital requirements of production and trade. In more senses than one, banks act as a source of saving as efficacious in their way as the investors in Tata Steel who save out of their income. There is this difference that banks do not save out of income but create saving out of nothing so to speak even as banks collect interest on what they owe to others. In India particularly, when many avenues of industrial development will be explored in the future both by the State and the Citizen. such saving is bound to have positive social consequences for good. For the increasing volume of production and trade cannot be financed except by the creation of credit (leaving aside war-time inflation of note issue). By creating additional credit to finance working capital, the banks assist that expansion of production and trade and make it more rapid. I have indicated enough in my *Foreword* to stress the importance of making a critical study of banking and I recommend this book to all who wish to be acquainted with the details of "central banking"—students, undergraduate and post-graduate, legislators, publicists, journalists, bankers, civilians—as well outside India as inside. Appendix 'B' contains a summary of the part played by banking in the United Kingdom during the War: it is authoritative in the sense that the authors have culled articles from established writers on the subject. Appendix 'C' contains useful banking data relating to all parts of the world and all aspects of social welfare. Appendix 'D' presents the main essentials of the Bretton-Woods Scheme as also of the San Francisco Charter—the effective working of which *only* could create the platform necessary for international exchange and banking.

It is very much to be hoped that in the future when banking will play the function of a catalytic agent in transforming this feudal economy of ours into an industrial

economy, citizens will take an intelligent interest in it. They have to acquaint themselves with the principles of banking as well as with the evolution of banking so that they might influence policy. Good books on banking are rare: good books on Indian banking are rarer still, but the attempts of these authors to produce a work on Indian banking deserve congratulation as well as commendation if for no other purpose at least for stimulating interest in the reader in this highly potential field of national activity.

GHULAM MOHAMMED.

POONA,
August 3, 1945.

PREFACE

WHILE the necessities of War have intensified the industrial revolution, a more far-reaching revolution has been started by the adoption of new concepts in the field of money and finance Disregard of the value of the precious yellow metal in the monetary structure, deficit spending, social investment, full employment, lease-lend—these are only a few among the many unorthodox techniques that have by now become the hub of money and finance, and promise to revolutionise monetary and financial theory and practice in the post-war world. In Maurice Dobb's words:—

> Once the Plan has solved the problem of output and the transfer of productive resources, finance follows in the wake of production as an obedient camp follower. To maintain that in such circumstances financial considerations are secondary is not to say that they are of negligible importance. It is merely to say that they are in the main contingent on the production plan and tend to fall in their place once the production plan has been settled.

Dobb said this of the U.S.S.R., but in actual practice the same principle has been in vogue in all leading belligerent countries during these war years. Lord Keynes has explained how finance is being assisted by money:—

> Unemployment develops because people want the moon: men cannot be employed when the object of desire (that is, money) is something which cannot be produced and the demand for which cannot be really checked off. There is no remedy but to persuade the public that green cheese is practically the same thing, and to have a green cheese factory (that is, a central bank), under public control.

Social stability and social progress has become the supreme objective of economic policy, and the stability of the purchasing power of the currency (not in terms of some foreign money, but in terms of real goods) has been recognised as the most potent factor in achieving this objective. H. W. Singer wrote:—

> The stable currency is sacrosanct and is considered part of the German capital which must on no account be used up for financing the war.

To keep the purchasing power of the Currency stable is the function of a Central Bank and while it is true that in war time, part of central banking is taken over by Government, that part of Government's work is central banking. There can be no denying of the claim that after the war, central banks are bound to develop into technically equipped arbiters of the economic destinies of their respective countries. Through upgrading the national income in real terms, through determining the levels of consumption, saving and investment, through control and adjustment of costs, prices, wages,

interest rates and profits, through taxation and borrowing, the central banks will profoundly affect production, distribution and consumption. Ten years ago, the British Chancellor of the Exchequer would never have worried his head over the question whether the cost of living lagged behind the wage level, as Sir John Anderson did very recently. A study of central banking should thus be incomplete if such integral questions, now being temporarily tackled by Governments, should be left out.

However, the dropping of the Keynes and the White Plans and the recent anomalous gold sales in India at prices giving about 75 per cent. profit to the selling countries *in the name of anti-inflation with the active co-operation of the Reserve Bank of India*, show that at any rate for some time to come, global organisations in matters of money and finance are out of the question. The central banks are to remain as guardians of national and not international prosperity.

We do not propose to enter into the controversy—Is the Hyderabad State Bank a central bank? All that we have tried to say is that the preamble of the Act leaves no doubt in the matter and the natural course would be to follow it up. However, if this book develops on other lines, the need for central banking in Hyderabad could not be any the less. Development in other directions must mean one of two things: central banking might be planned to set in more gradually than originally intended, or Government itself might carry on several central banking functions till the time came when they might consider the transfer of such work to a technically equipped institution advisable. The crux of the question is—has the Hyderabad State got a "money" of her own, and has the State a financial responsibility and stake? If the answer is "yes" (we wonder if any one could say "no"), *then* the earlier central banking functions are scientifically provided for, the safer. In any case, that Government would be like a mariner without the compass which tried to jog on without a fully alive central bank. The purchasing power of the Hyderabad rupee—its adequacy and its stability (in terms of *real* goods) are a vital condition for the adoption of any economic planning in these Dominions. Fortunately, as we have tried to explain in these pages, the general prospect in Hyderabad is quite good, as also generally in India; some circumspection and the adoption of proved modern technique should guarantee success in economic planning for the future. But in Dr. Balogh's words, "to demand safety, certainty and simplicity in the present world is to court failure and disaster".

The book has an Indian setting which is necessary for dealing with any problem of the Hyderabad State. Every attempt has been made to explain local terms to readers outside India. The difficulty should not be greater than that relating to Spanish and German terms. Every problem has been discussed as applying to Hyderabad and

India. The book is primarily intended for the student, but we are confident that civil servants, bankers and businessmen will also find it useful. No pains have been spared in giving the latest statistics and views, but in India and abroad, economic and financial data have been changing very fast. We have also tried to review the evolution of central banking in general as well as its development in India and in Hyderabad, and have dealt with problems of war finance and post-war planning.

Many of the suggestions made herein have already been implemented: the progress of publication of this book was impeded owing to war conditions, but on that account our ideas and suggestions do not lose their value. They demand serious consideration, particularly in Hyderabad, where a rapid increase in the currency and a substantial reduction in the cash backing have gone beyond levels which we were thinking of some time ago.

A really effective central bank is much more responsible for the suitable and timely adjustment through the monetary mechanism of prices, wages,* profits and rents, with supreme attention to social stability than for mere commercial banking. In other words, the National Income, Consumption, Saving and Investment are to be predominantly brought up to and maintained at proper levels through the technique of central banking. The Federal Reserve Board in the U.S.A. gives us the lead in this matter. It is for this reason that we have discussed at length questions of full and stable employment as also of social security, and appended copiously enlightening passages, mostly from the *Economist* and League of Nations publications. We also acknowledge that we have made use of some of our articles and notes in the British *Economic Journal*, the *Indian Journal of Economics* and other periodicals.

The views expressed in this book are our own individually, and do not represent or indicate those of H.E.H. the Nizam's Government.

MIR NAWAZ JUNG.
S. KESAVA IYENGAR.

HYDERABAD (DECCAN),
INDIA,
November 1, 1945.

* "If a sagging rate of interest is to be brought about by a sagging wage level, there is a double drag on the marginal efficiency of capital and a double reason for putting off investment and thus postponing recovery."
—LORD KEYNES.

PRELIMINARY NOTE

"It reads more like a tale from the Arabian Nights than a statement of facts that occurred within the last fifty years."

FASLI year is the official year in the Hyderabad State, running from October 6 to October 5 of the next A.D. year. 1354 Fasli year was from October 6, 1944 to October 5, 1945.

Rupee is the standard coin in British India linked to sterling at 18 *d.*

O.S. means *Osmania Sicca,* the rupee circulating in the Hyderabad State. B.G. means British Government rupee circulating in British India. The par of exchange between the B.G. and the O.S. rupee is B.G. Rs. 6 = O.S. Rs. 7; or B.G. Rs. 100 = O.S. Rs. 116-10-8. The silver contents of the B.G. Rupee were till recently 180 grains eleven-twelfths fine (fineness has been recently reduced to 50 per cent.), and those of the Hyderabad rupee are 172.5 grains, 816.8 parts fine out of a thousand. The fineness of this rupee also has been recently reduced to fifty per cent.

The following is a brief summary of the background relating to Hyderabad currency, exchange and note issue.

The right to issue its own currency has been exercised by the Hyderabad Government for generations, but there is practically no authentic record of the Currency of the State prior to the year 1854 when Sir Salar Jung I began his currency reforms and founded the Hyderabad Mint. The Mint was open to receive silver from nobles and merchants and to mint silver coins on their behalf against payment of the striking charges. From that time down to the establishment of the new Mint, the Hyderabad Currency had a chequered career. The old hand method of manufacture of coins continued upto 1893, and there were no less than 24 kinds of rupees circulating in the Dominions. The introduction of the Charminar Coin in 1903, placed Hyderabad Currency on a sound footing. Its main feature was the design of the historic Charminar on one side and an inscription on the other. In the archway of the Charminar there was inscribed the letter "*Meem*" being the initial letter of the name of the then Ruler. The letter was changed to "*Ain*" when His Exalted Highness ascended the throne. It may be added that while up till 1858 the State coin bore an inscription, Sir Salar Jung formally abolished this last remnant of the allegiance the Nizams of Hyderabad owed in the earlier days to the Moghul Emperor.

Besides silver and gold, nickel and copper are also used for currency. The gold coins bear the same inscription on the obverse and reverse as the silver coins with the word *Rupee* changed to

Ashrafi. The *Ashrafi* is not a legal tender coin but is very popular and freely used by the public for ornamental purposes. The denominations of copper coins in circulation are half anna, two pies, and one pie. The nickel one anna coin was brought into circulation in June 1920. As this coin has not found much favour with the public and gets easily mixed up with four anna silver coin, the Finance Department has changed its shape recently.

For stabilising their currency, the Hyderabad Government adopted measures, practically identical in principle with those on which after the closing of the Indian Mints, the Government of India had been able to maintain successfully the sterling value of their rupee in the neighbourhood of *1s. 4d.* As a result of these measures the rate of exchange between the Hyderabad Currency and that of the British Government had been kept, except during the extremely abnormal conditions of the Great War, within small variations at the ratio of Osmania Sicca (Hyderabad) Rs. 116-14-7 to British Government Rs. 100 which represents the respective silver contents of the two. A favourable balance was the normal condition of Hyderabad, as it was of Indian trade, and there was usually every cold weather a demand for the State currency in exchange for B.G. rupees to finance the exports of produce to which this favourable balance was due. It was practically for the first time in the history of the stabilised Hyderabad currency that, owing to famine conditions, added to the rush for the purchase of gold at the Government of India auctions, this balance was reversed in 1329 F. and the Hyderabad Government had, in order to stabilise the exchanges, to throw open their B.G., and not as usual, their Osmania Sicca Reserves. In three and half months (between the middle of *Thir*—May 1920 and the end of *Mehir*—August 1920) 247 lakhs of B.G. had been paid off in exchange for O.S. rupees delivered to the Government, whilst in the three previous seasons 1327 F., 1328 F., and 1329 F. (first half), 243 lakhs, 213 lakhs and 294 lakhs of O.S. had been sold in exchange for B.G.s. In 1330 F., also owing to the failure of crops for export, 99 lakhs of B.G. have had to be offered to finance the import trade, the demand for B.G.s having set in early in January 1921 (Isfander 1330 F.), and has continued up to the present day. It is expected, however, that with a copious rainfall the normal balance of trade will be restored; although possibly our sales of O.S. drafts in 1331 F. might not be as heavy as what they had been in the record year 1329 F. owing to the large accumulated stock of cotton lying in Bombay and the consequent comparative weakness of demand for fresh produce of our Dominions. The reserves of silver that we have in the Mint will, therefore, I expect, be ample to meet any demand for an addition to our O.S. currency that may spring up in the export season of 1331 F.—(*Introduction to The Budget Notes for the years* 1331, 1332, 1333 and 1334 F., by A. Hydari Hyder Nawaz Jung, Finance Member, 1924, pp. 7-8.)

Coin is only issued from the Mint to maintain the rate of exchange between British and Osmania Sicca rupees. No coin is issued till the minimum point of exchange is reached and then only at the minimum rate prescribed by Government. With every issue of new coin a sum considerably in excess of the coinage profits

is credited to the Currency Reserve and thus full provision is made against the time when the balance of exchange may set the other way and it may be necessary to recall O.S. rupees from circulation.

From the date of the outbreak of war the question of the rate of exchange between the Osmania Sicca and the British rupee engaged the most serious attention of the Government. The silver value of the O.S. rupee as compared with the British rupee is O.S. Rs. 116-14-7 equal to B.G. Rs. 100 and the currency policy of the Government has been to maintain the rate of exchange between the two currencies at as near their respective silver contents as possible. The importance of a stable rate of exchange in the interests of commerce is fully realised by His Exalted Highness the Nizam's Government but the peculiar conditions arising out of the war resulted in Hyderabad, as in other countries, in fluctuations unknown in normal years. On the whole, however, these fluctuations were not of sufficient magnitude to hamper the trade of the Dominions. Up to the year 1327 F., *i.e.*, the first three years of the war, the pre-war rate of exchange remained unchanged; but from that time the unprecedented demand for silver coinage became more and more difficult to meet. It is sufficient to say that the difficulties, with which His Exalted Highness's Government were confronted, were identical, though on a smaller scale, with those facing the Government of India At one time Hyderabad was even able to lend the Government of India silver during the currency crisis before the United States of America came to their aid. But the stock of imported silver in the Mint was eventually exhausted, and under the silver ordinance no more could be obtained from abroad. The country silver available in the market was insufficient to meet the demand and at one time, owing to the scarcity of O.S. rupees, the exchange rate which was never below O.S. Rs. 116 = B.G. Rs. 100 in the ten years before the war, fell to O.S. Rs. 105 = B.G. Rs. 100. This, however, was only for a short period and the general rate of exchange in 1328 F. and in the beginning of 1329 F. ranged between 109 and 112. At the end of 1329 F. it stood at 116 approximately—the pre-war rate Large quantities of gold released by the Government of India were absorbed in Hyderabad while silver coin, hoarded during the war, when exports largely exceeded imports, had to be brought out to purchase this gold, with the result that there was a great addition to the number of silver rupees in active circulation. Up to the middle of 1329 F. the difficulty was to prevent undue appreciation of the O.S. rupees. After that the difficulty was to prevent the depreciation of the same coin. Instead of a demand for O.S. rupees the general tendency was to convert O.S. currency into British to pay for imports. There was thus a temporary redundancy of the local currency and to restrain fluctuations of exchange Government freely offered drafts on Bombay in exchange for O.S. rupees. To meet this unexpected demand on the British rupee balances, it was necessary to sell off the bullion in the Mint at a considerable loss owing to the simultaneous fall in the price of silver. It must be remembered, however, that coinage profits till then exceeded four crores of rupees, while the total loss in maintaining exchange from the time the present currency was first

introduced was well under Rs. 40 lakhs.—(*Report on the Administration of H.E.H. the Nizam's Dominions for the Year* 1331 F., 6th Oct. 1921 to 5th Oct. 1922, pp. 135-36.)

EARMARKING OF SEPARATE RESERVES

The second measure was to earmark the different funded investments under separate reserves according to the sources from, or the objects for, which they have been constituted. Government hold certain Rupee investments in the form of Government of India War Bonds and Loans and various Municipal and Port Trust Debentures, which were in 1331 F., of the face value of B.G. Rs. 4,71,76,500. There were in addition, Sterling investments, mainly Nizam's Railway and Mining Stock, of the total face value of £2,075,480. These latter are capital stock and debentures, which have been issued by the Broad and Metre Gauge Sections of the N.G.S. Railway to meet their capital requirements and have been taken up by Government so as to provide a profitable investment, whilst at the same time reduce the price which will have ultimately to be paid for the redemption of these lines about ten or twenty years hence. Being Sterling Investments they have always been set apart earmarked for Railway purposes. It is the B.G. investments which are not only from the accumulated surpluses of previous years but are also partly the result of the coinage of Osmania Sicca Rupees and issue of Paper Currency Notes and which, therefore, require differentiation. They have now been set apart under different reserves as follows:—

(*a*) Section (9) of the Hyderabad Paper Currency Act (II of 1327 F.) provided that not more than one-third of the total value of the notes in circulation might, in lieu of cash, be kept in securities of the Government of India or of this Government or of any Company working or owning any Railway in the Dominions. The total circulation is Rs. 1,51,07,000 O.S. British Government Promissory Notes of the face value of B.G. 37,27,500 have been earmarked for the Paper Currency Reserve.

(*b*) The second reserve that has been constituted is, what used to be called the 'Kaldar Reserve' but which might with greater correctness be termed the Osmania Sicca Stabilisation Reserve. By measures, similar to those by which the Government of India were able to keep a fixed ratio between their rupee and the English Pound Sterling after the closing of the Mints up to the Great War, this Government also has been able to prevent the fluctuations of value between the Osmania Sicca and the B.G. rupee going much beyond their respective silver content, which is 116-14-7 O.S. to 100 B.G.; the limit of appreciation of the Osmania Sicca being kept at about 114 and 115 O.S. and of depreciation at about 119 or 120 O.S. to 100 B.G. Rupees. The minted value of the Osmania Sicca Rupee is thus, as in the case of the B.G. Rupees very much in excess of its bullion value; and the difference, after deducting the cost of minting, which comes on an average to about 2 per cent. of the value of the coins

minted, represents Profits on Coinage. This amounted in the period 1313-1319 to Rs. 145.03 lakhs or deducting 2 per cent. as seigniorage to cover the Mint charges, the net amount of profits was Rs. 127.27 lakhs. From 1320-1330, the figures for these profits are gross 125.52 less 2 per cent. seigniorage 23.24 net 102.28. These profits, thus amounting in all to 229.55, must be invested and set apart in a reserve so as to be available, whenever the necessity arises, to prevent (by purchase of Osmania Sicca for B.G. Rupees) the depreciation of the Osmania Sicca below or (by the purchase of silver and the minting and issuing of fresh Osmania Sicca), or its appreciation beyond, the normal fixed points.

In order to strengthen this Reserve, His Exalted Highness in his *Farman* of the 9th Ramzan 1329 H. had commanded 95 lakhs being added to it in addition to the profits from coinage that had accrued at that time, as a supplementary reserve, to meet any extraordinary demands for B.G. Rupees and keep up the Osmania Sicca exchange. During 1320-1330, however, there have been losses on sale of silver which had been purchased for minting amounting to about 60½ lakhs and losses on the sale of Government Promissory Notes that used to be in this Reserve, amounting to about 12 lakhs, making in all 72½ lakhs. Deducting this from the 95 lakhs, there is a balance of 22½ lakhs, which should be added to the profits of 229.55. Accordingly British Government Promissory Notes of the face value of 2½ crores have been set apart for the Osmania Sicca Stabilisation Reserve

—(*Introduction to the Budget Notes for the Years* 1331, 1332, 1333 and 1334 F., by A. Hydari Hydar Nawaz Jung, Finance Member, 1924, pp. 30-32.)

The *Osmania Sicca Stabilisation Reserve* made up from profits of coinage accruing from the difference between the minted and the bullion value of the Osmania Sicca rupee, less cost of minting. The Reserve was started with British Government Promissory Notes of the face value of 250 lakhs in 1332. No addition has been possible in this Reserve as although there has been an issue of 56.37 lakhs of new coinage in 1332, there has been at the same time a receipt, in lieu of B.G. rupees, of 224 lakhs O.S. rupees at higher than the accounts rates. The profits on these O S rupees, it is unnecessary to add, had already been credited to the Reserve when the coin had been originally issued.—(*Introduction to the Budget Notes for the Years* 1331, 1331, 13333 and 1334 F., by A. Hydari p. 73.)

The Hyderabad Paper Currency Act II of 1327 F. provides for the issue and regulation of Paper Currency. The first notes to be placed in circulation were the one hundred and the ten rupee notes. These were followed by the five rupee and the one rupee notes in 1919, but as the latter were not very popular they were subsequently withdrawn from circulation. The circulation of Government Currency notes has increased steadily. The average increase in gross circulation during the last fifteen years has been at the rate of 73 lakhs

a year. The increase has been more marked since 1927 and is likely to continue for many years to come.

PAPER CURRENCY DEPARTMENT

This Department was established in Shahrewar 1327 F. (1918). The first notes to be placed in circulation were one hundred and ten rupee notes, issued on the 17th Shahrewar and the 23rd Shahrewar 1327 F. respectively. In 1329 F., five rupee and one rupee Notes were issued, but as the latter were not accepted by the public as readily as those of higher denominations, it was decided to withdraw them from circulation as soon as circumstances permitted. Accordingly, out of 21 lakhs of one rupee Notes issued, 20,47,919 were withdrawn in 1330 F. and 35,782 in 1331 F.

Excluding Notes in Government Treasuries and the Hyderabad Branch of the Imperial Bank of India, the net circulation of Notes of various denominations was as follows on the last day of each of the first five years:—

Fasli year			O.S. Rs. in lakhs
1327	..	..	10·75
1328	..	..	52·50
1329	..	..	79·14
1330	..	..	116·96
1331	..	..	139·45

The percentage of Notes of various denominations to the gross circulation (Rs. 1,53,87,594) was as follows at the end of 1331 F.:—

Rupee Notes		Per cent.
1 Rupee Notes ..	..	00·1
5 " " ..	..	14·5
10 " " ..	..	46·7
100 " " ..		38·7

The Paper Currency Reserve stood as follows on the last day of 1330 and 1331 F.:—

1330 Fasli	1331 Fasli
O.S. Rupee Coins 1,06,68,061	O.S. Rupee Coins 96,60,094
B.G. Rupee Coins Nil	B.G. Rupee Coins 17,14,285 equal to Rs. 19,99,999-2-8
5% War Bonds B.G. Rs. 31,95,000 equal to O.S. Rs. 37,27,500	5% War Bonds B.G. Rs. 31,95,000 equal to O.S. Rs. 37,27,500

—(*Report on the Administration of H.E.H. the Nizam's Dominions for the Year* 1331 F., pp. 137-38.)

The Paper Currency Reserve was constituted with reference to Section 9 of the Hyderabad Paper Currency Act II of 1327 which allows one-third of the total value of the notes in circulation being kept in British Indian Government or Nizam's Government paper in lieu of cash. The total circulation in the beginning of 1332 was 151.07 lakhs for which British Government Promissory Notes of the

face value of B.G. Rs. 37,27,500 were earmarked. In 1333 an addition of B.G. Rs. 16.57 lakhs has been made so that this Reserve has now B.G. paper of the total face value of 53.84 lakhs. The net circulation was 160 lakhs in the beginning of 1333 (October 1923) and reached 200 lakhs by the end of Ardibehisht (March 1924) after which there was the usual decline until, at the end of last month (Shahrewar—July), when it usually reaches its lowest point, the circulation was 186 lakhs. There is, therefore, room for investment of at least another 8 lakhs in this Reserve.—(*Introduction to the Budget Notes for the Years* 1331, 1332, 1333 and 1334 F., by A. Hydari, 1924, pp. 72-73.)

Statement showing sizes of Osmania Sicca Stabilisation and Paper Currency Reserves at the beginning of each Fasli year after the Departmentalisation Scheme was introduced

Years	Osmania Sicca Stabilisation Reserve	Paper Currency Reserve
	(in lakhs of B.G. Rs)	(in lakhs of B.G. Rs.)
1332 (1922–23)	250·00	37·28
1333	250·00	37·27
1334	250·00	53·84
1335	250·00	61·35
1336	250·00	61·34
	(in lakhs of O.S. Rs.)	(in lakhs of O.S. Rs.)
1337	301·82	71·57
1338	356·44	746·21
1339	358·34	844·05
1340	357·87	894·14
1341	358·63	984·99
1342	358·53	1024·55
1343	358·62	1078·70
1344	358·90	1105·52
1345	359·02	1211·27
1346	359·07	1265·28
1347	359·05	1395·33
1348	361·63	1371·99
1349	361·63	1457·38
1350	361·62	1650·94

Extract from the Resolution of the Government of His Exalted Highness the Nizam in the Finance Department (Currency) reviewing the Annual Report of the Paper Currency Department, H.E.H. the Nizam's Government, Hyderabad, Deccan, for the year 1349 F.

It is satisfactory to note that the circulation of His Exalted Highness's Government Currency Notes is increasing steadily. The average increase in the gross circulation since the commencement of the note issue has been at the rate of over 74 lakhs a year, the gross and net circulation as at the end of 1349 F. being Rs. 16,31,25,623 and Rs. 15,20,48,543 respectively.

The figures as they stand compare very favourably on the basis of population with the total notes in circulation in British India; and it is hoped that the improvement will continue in the years to come. The Hyderabad Paper Currency is fully backed as in British India, by a separate Reserve in silver coin and and Government of India Securities. The following statement shows the amount of n[illegible]s in

circulation and the corresponding Reserve as on the last day of the year under report:—

		O.S. Rs.
Total notes in circulation on the 30th Aban 1349 F ..		16,31,25,623
Reserve :		
Silver coin in Exchange Branch Currency Chests and local Banks		10,84,08,174
Investment in Govt. of India Securities -		
2¾% Loan of the face value of	57,00,000	
3% do. ..	1,99,58,500	
3½% do. ..	1,12,76,000	
4% do. ..	75,71,200	
Interest-Free Defence Loan ..	50,00,000	
	4,95,05,700	5,31,17,449
3½% Nizam's Govt. Pro-Notes ..	..	6,00,000
5½% do. ..	..	10,00,000
	TOTAL .	16,31,25,623

Copy of the Unofficial Note No. 9, issued by the Information Bureau, Hyderabad—Deccan, on 20th November 1940

(*16th Dai* 1350 *F.*)

The establishment of a State Bank in H.E.H. the Nizam's Dominions is foreshadowed in the current year's budget statement. The institution, which will naturally occupy the pivotal position in the State's banking and currency system, will be set up for the purpose of taking over the management of currency from Government and of carrying the business of banking in accordance with provisions to be made

With the rapid agricultural and industrial development of the State giving rise to new problems of banking and finance, the need for establishing a State Bank in these Dominions has been increasingly felt for some time past. The question had been engaging the serious attention of Government who have now decided to establish such an institution. Details regarding the Bank's capital, control and management of its affairs, etc., are to be worked out shortly by a banking expert whose services have been temporarily borrowed from British India. As already known, Government have also decided to establish a Land Mortgage Bank to function as an adjunct to the State Bank for the payment of the conciliated debts of the agriculturists.

The economic development of a State—be it agricultural or industrial—presupposes the existence of a sound and efficient banking and currency system. The agricultural and industrial development of these Dominions has now reached a point where the present facilities for borrowing are found not only antiquated but also inadequate. A case in point is the agricultural indebtedness in the State which is estimated, as the result of a detailed enquiry, to approximate to one hundred crores of rupees. It is obvious that the existing credit facilities cannot by themselves redeem the position, the only remedy for which lies in the provision by the State of opportunities for long-

term borrowing. This can be done only through the agency of a State Bank.

Nor are the existing facilities for financing large- and small-scale industries in the State adequate to the growing needs of industrial concerns. The Industrial Trust Fund, which was founded with a crore of rupees by the Rt-Hon'ble Sir Akbar Hydari in 1929 when he was Finance Member of H.E.H the Nizam's Government, was of invaluable help in quickening the pace of industrial development here, but was found inadequate to meet all the growing demands on its resources incidental to the increasing industrialisation of the State. In order, therefore, to expand the facilities for long-term borrowing the management of the Industrial Trust Fund is also proposed to be entrusted to the State Bank

Apart from these considerations, a State Bank is needed for maintaining the purchasing power of the *Hali* rupee and also for regulating its supply and demand by quick movements of money; for promoting the success of Government loans and for financing agriculture and marketing of crops by giving loans to co-operative banks.

Incidentally it would create valuable opportunities for Hyderabadees to receive practical training in the highly specialised job of banking and would ultimately place them in a position to manage their own affairs without recourse to outside help.

Further details are given in Appendix "A".

CONTENTS

CHAPTER I

INTRODUCTORY

"Economic theory is not a storehouse of recipes or a philosophy, but a tool with which to analyse the economic patterns of real life."

—*Quarterly Journal of Economics*, May 1941, p. 358.

THIS is a brief study: paper is hard to get: the subject is technical to the core. The idea of a central bank for British India was first recommended in 1926 by the Hilton-Young Commission, the Reserve Bank of India Act was passed in 1934 and the Bank came into being on April 1, 1935. The Bank rate was announced for the first time on July 4, 1935. Things have moved more quickly in Hyderabad. The Special Officer was appointed on November 1, 1940, the Hyderabad State Bank Act was passed in 1940-41, the share capital was fully subscribed by the first week of February 1942, and the Bank began regular work in the first week of April 1942. One cannot begin better than by saying that the Hyderabad State Bank Act has launched in this State an organisation with great possibilities. There are of course vested interests which recognise danger to themselves, real or imaginary, in this Bank, and much is being done to spread wrong information about its intentions and working. Also, in the bustle and excitement, there is apt to be considerable amount of misunderstanding, overlooking or infringement of important principles. There must also be some amount of doubt and demur in the course of the evolution of the Bank, both in Government circles and amongst the public. The purpose of this monograph is to make a constructive study of the issues involved and to present it in as simple a manner as possible so that the layman may be able to understand what all this is about, and the specialising student may grasp the numerous phases in the evolution of a central bank, on the basis of a local institution instead of foreign ones, information about which is generally available to him.

The Bank of England was not developed in a decade, and the Reserve Bank of India, after seven years' working, is still to grow and to improve in several respects.* The Hyderabad State Bank Act

* Section 55(1) of the Reserve Bank of India Act prescribes that "the Bank shall, at the earliest practicable date and in any case within three years from the date on which this charter comes into force (*i.e.*, on or before the 31st December, 1937), make to the Governor-General in Council a report, with proposals, if it thinks fit, for legislation, on the following matters, namely:—

(*a*) the extension of the provisions of this Act relating to scheduled banks to persons and firms, not being scheduled banks, engaged in British India in the business of banking, and

of 1350 F. (1940-41) is perhaps not meant to be the final word on the problem, and this study may perhaps help in:

(1) rechartering the Bank if and when and where considered suitable;

(2) developing certain conventions which may meet needs not properly provided for in the Act; and/or

(3) paving the way for a consolidated Currency and Bank Note Act.*

"State Bank" is a vague phrase. A State Bank may mean as in the U.S.S.R., an apex institution meant for nationalisation of banks as per plan.† It may mean, as in the U.S.A., simply ordinary commercial banks chartered by State Governments. It may also mean banks whose capital is owned (partly or wholly) or guaranteed by the State, but doing primary work. Finally, if a central bank is meant by this phrase, then the lines of organisation will have to be similar to those adopted for the organisation and working of central banks in different parts of the world.

Doubt is entertained in some quarters as to whether a "dependent" currency system like that in Hyderabad can possibly develop a central banking system. Perhaps the usual technical words "Issue Department" and "Central" or "Reserve" Bank of Hyderabad have not been allowed to be used by the Central Government.

A. F. W. Plumptre recognises in the rise of the central banks of South Africa, Australia, New Zealand and Canada, "the decline of colonialism and the arrival of financial Dominion Status".‡

(*b*) the improvement of the machinery for dealing with agricultural finance and methods for effecting a closer connection between agricultural enterprise and the operations of the Bank.'

* * * *

We can only promise that these problems will have our unremitting attention, that we will give our full and friendly consideration to any practical suggestions about them from any quarter and express our hope that gradually, as we acquire experience by experiment, the Reserve Bank may be able to make a real contribution towards their solution.—*Reserve Bank of India—Statutory Report*, 1937, pp. 1 and 47.

* Provisions of three Acts relating to Currency, Paper Currency and the State Bank are enumerated in Appendix A.

† See the Note on central banking in the U.S.S.R., in Appendix C.

‡ The Dominion central banks, it is pointed out, are symbols at once of the decline of colonialism and of the arrival of financial Dominion Status. The Dominions had long been content to look to London (and, in the case of Canada, to New York) as financial leaders, whose guidance was to be accepted without question. The development of their own local economies towards maturity, the growth of industries, and the trend towards a more balanced position in the international capital market made inevitable a move, which was further intensified by nationalistic feeling in other spheres, towards some degree of financial independence. The establishment of central banks was in some degree an expression of this desire for financial independence. It was, however, at the same time encouraged in England, where, according to Professor Plumptre, "the desire for a chain of Empire central banks was

However more slowly, this is true of the Reserve Bank of India, and however still more slowly, this must be true of the Hyderabad State Bank. From this higher standpoint, it is very necessary that the Hyderabad Government should maintain an open mind on main issues involved, and accommodate the Bank (without undue regard to small and momentary considerations) with the ultimate object of the State achieving financial independence, and that the Bank should give up *all* ideas of dividends exceeding rock-bottom "pure" interest rates.

A question further arises in the mind of the student after a careful study of the Act. What is this Bank meant to be? Will it be something like the Bank of Mysore or the Bank of Baroda given *some* facilities by the respective State Government, but which banks are ordinary commercial banks? Will it be somewhat like the Imperial Bank of India between 1921 and 1934, doing *some* work for the Government, not entrusted with *other* important Governmental banking and financial work, and given facilities to develop into a "big" bank earning high dividends for the shareholders? Or, is it proposed to become a polytechnic bank doing all kinds of financing—exchange, commercial, industrial and agricultural, but of a primary type dealing mostly with individuals and perhaps sometimes with other banks? Lastly, can it be that it is intended to develop into a "Central Bank" in the full sense of the term?

By a process of elimination all other possibilities go, and only one remains, namely, the Hyderabad State Bank *must* develop into a real "Reserve Bank of Hyderabad". If for any reason it is not allowed to develop into such an institution, the Hyderabad State Bank will come later into a position similar to that of the Imperial Bank of India after 1934—of an adopted child having to face a child begotten later*: British India is said to set the fashion for us in

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a latter-day expression of financial imperialism The terminology was changed and the word co-operation figured more than formerly, but the essential purpose was the same: the maintenance and extension of London's influence and control." How far the new central banks have in fact been docile children of their august mother is a matter on which some doubt may legitimately be entertained, but the fervour of some of the Dominion critics, to whom their central banks appeared too timid and respectful, has also abated, and although these banks have already made valuable contributions to the welfare of their countries, their critics are less confident than they were that a bolder policy would free them completely from the inconveniences arising from intimate relations with the rest of the world Rigid exchange stability is perhaps too much to expect, but even in Australia, where exchange flexibility has enjoyed the greatest repute, "economists seem increasingly agreed that the exchange rate ought only to be moved under exceptional circumstances."—*The Economic Journal*, Vol. LI, p. 133.

* If the Imperial Bank were required to discharge the duties of a true Central Bank its charter would have to be amended radically in the direction indicated. It would thus be precluded from undertaking a great many tasks which it now successfully performs as a commercial bank. The country would

numerous situations: Hyderabad *does and will* require a Reserve Bank.

The Hyderabad State Bank Act is categorical in this matter: the preamble runs:

> Whereas it is expedient to constitute a State Bank for H.E.H. the Nizam's Dominions to regulate the circulation of the currency, to maintain its stability and security, to facilitate the payment of money in the Dominions and abroad, to provide credit necessary for the economic life of the country and to encourage the growth of agriculture, commerce and industry. .....

Compare this with the preamble of the Reserve Bank of India Act which runs:

> Whereas it is expedient to constitute a Reserve Bank for India to regulate the issue of bank notes and the keeping of reserves with a view to securing monetary stability in British India and generally to operate the currency and credit systems of the country to its advantage*; ....

If anything, the preamble of the Hyderabad legislation is more explicit and more ambitious.

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then lose the benefit of the elaborate and widespread organisation which has been set up, through the length and breadth of India, to make available to the community the increased commercial banking facilities, which are so urgently needed, and to assist in fostering, among the people as a whole, the habit of banking and investment. This consideration alone negatives the idea of disturbing the present functions of the Imperial Bank. It suggests, on the contrary, that that bank should be freed altogether from the restrictions which its present charter imposes upon it, and which clearly have their origin in the hybrid character of the functions which were originally assigned to it. When those of a purely central banking character are taken over—as they should be—by the new Central Bank, there is no longer any reason why the Imperial Bank should not be as free and unencumbered in its sphere of activity as any other of the commercial banks. Its important task of giving India the widespread banking facilities which it needs will thereby be facilitated.—*Hilton-Young Commission Report*, 1926, pp. 34-35.

* The Hilton-Young Commission said (pp. 33-34 of Report):

> The evidence has clearly brought out the inherent weakness of a system in which the control of currency and of credit is in the hands of two distinct authorities whose policies may be widely divergent, and in which the currency and banking reserves are controlled and managed separately one from the other. It has brought out the necessity of a unity of policy in the control of currency and credit in a modern financial organisation, if monetary stability is to be achieved. What has less clearly emerged from the evidence but none the less needs emphasis is how essential it is for the development of banking generally that the foundations of the credit organisation should be truly laid. This will only be the case if the commercial banks (a phrase in which are included both exchange and indigenous banks) are able, when the necessity arises, to turn into cash a maximum of their assets with a minimum of disturbance to general conditions. It is only through the establishment of a central banking system, with the facilities of re-discounting it affords, that this end can be achieved. Not until then does the commercial banks' most legitimate asset, *viz.*, a short-term advance against goods in the form of a commercial bill, become a quick asset capable of prompt realisation in times of stress. The system, in fact, enables the commercial banks to regard their holdings of commercial bills as their secondary reserves.
>
> The economic history of the great trading nations of the world during the last half-century demonstrates, far more clearly than any technical exposi-

In the words of *Indian Finance,*

to pull Indian banking out of the morass into which it has fallen in recent years, and put it on the high-road that leads to what we call Indian Banking autonomy

should be the main aim of a central bank for Hyderabad.

The functions of a Central Bank are analysed into the following heads, generally:

(1) as the Bank of issue and custodian of the nation's metallic reserves;

(2) as Government's banker, agent and adviser;

(3) as the custodian of the cash reserves of the commercial banks;

(4) as the bank of rediscount and lender of the last resort and the controller of credit;

(5) as a bank of central clearance, settlement and transfer;

(6) as the apex financing institution co-ordinating commercial, industrial and agricultural finance by the technique of qualitative credit control and by appropriate policies of reflation;

(7) as the compiler of all statistics relating to banking and cognate matters; and

(8) as the trustee of education, propaganda, organisation and supervision of banking in the country.*

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tion of the workings of the system could demonstrate, the high efficiency of the system and its benign influence upon economic progress, wherever it has been introduced The United States of America has been one of the last to adopt it. It has done so under the stress of its disastrous experience of regularly and frequently recurring financial upheavals of gigantic proportions, directly traceable to the weakness of the system of decentralised banking and currency reserves. There are not a few students of financial affairs who hold that, if it had not been for the timely introduction of the Federal Reserve System in 1913, it is doubtful whether America, in spite of its enormous economic advantages, could have weathered the stress of the great war without grievous harm to its financial structure.

The Central Banks in other countries work under charters which, though differing in detail, are very similar as regards their fundamental lines. In general they are entrusted with the sole right of note issue and the responsibility of maintaining the stability of the currency. They are the custodians of the currency and banking reserves and of the cash balances of their Governments. Their business, in the main, is confined to that of a bank of the banks and of the Government. These functions of necessity require that the character of their business should be of the soundest. Such limitations upon their business prevent these Central Banks from transacting the everyday commercial banking business of the country or from entering into competition with the commercial banks in any general sense But, in times of stress, they intervene vigorously in the country's business by extending credit facilities liberally. They are primarily concerned with upholding the credit of the country and guiding its financial policy.

We are of opinion that India, profiting by the experience of other nations, should perfect her currency and credit organisation by setting up a Central Bank with a charter framed on lines which experience has proved to be sound.

* From the financial point of view, India is a new and still almost undeveloped country. If it is to become financially self-contained and to develop as it should, the most rigorous conservation of its still meagre financial resources

In practically all these matters, the Hyderabad State Bank Act preamble gives scope to the Hyderabad State Bank as of a Central Bank; but the provisions omitted or made vaguely are important, and do take away largely from the nature of a central bank. The Hyderabad Co-operative Dominion Bank has no special legislation and was registered under the Co-operative Societies' Act, but its functions are better provided for in the by-laws than in the case of the Hyderabad State Bank, although in the latter case there has been special legislation.

The legislation regarding a central bank is undoubtedly a long-range measure, and thus, keeping in view the fourth dimension—that of time—is very necessary and important. The numerous responsibilities of the central bank will have to be scheduled according to time preference, and development must be as per plan. In fact, one feels that even up till now, the move would have benefited more if more time and facilities had been allowed for discussion. But now that the ball has been set in motion, even from now, no cross-currents or counter-movements or stop-gaps should be allowed to operate: the Hyderabad State Bank must command as clean a slate as possible.

Further, general economic conditions in India are so peculiar that attempts to quote precedents or parallels from far off lands in detail, may not lead to good: the main principles are of course of universal applicability. There is a great deal in common between British India and Hyderabad in the general economic environment and thus, the organisation, programme and experience of the Reserve Bank of India should prove of great suggestive value to promoters of the Hyderabad State Bank—and this, in spite of the several weak points in the working of the Reserve Bank of India as heretofore. Another reason for a close study of the Reserve Bank of India would be that the monetary standards in the two cases are of the same kind: In British India it is the Sterling Exchange Standard: in Hyderabad it is the British Indian Exchange Standard.

That the Hyderabad Government have seriously taken to this measure of pivotal importance at a time when everybody's mind is pre-occupied with 'war effort', is a tribute to the enlightened statesmanship of the powers that be. In the long run, a central bank will mightily help 'war effort' as well as 'peace effort'. And when they are seriously discussing 'post-war reconstruction' of Britain and of Europe,

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will be necessary. They must be distributed only where they are best likely to fructify and assist in the development of the country. What this means in practical form is that the banking and investment habit in the country must be encouraged and strengthened.—*Reserve Bank of India—Statutory Report*, 1937, p. 34.

there is much greater justification for the speedy organisation of a central bank of Hyderabad—as a stepping stone to economic progress in all directions.

After these preliminary observations, it will be convenient to examine how far in connection with the discharge of each function of a central bank, the Hyderabad State Bank Act has made sufficient provision and in what respects improvements or additions are called for—as amendments, conventions or consolidation. A delay in this matter would probably make the position more difficult for the authorities at a later stage

CHAPTER II

GOVERNMENT AND BANK—POWERS OF CONTROL

"The authority of the State over the central bank is always necessarily absolute."

"State control points to State ownership of one kind or another."

—R. S. Sayers, *Modern Banking*, pp. 71-72.

Provisions in the Act for ensuring full control of the Bank by the Government are enumerated below and must be agreed to on all hands in view of the very great issues involved:

(1) The State must always own 51 per cent. of the share capital of the Bank.

(2) When a poll is demanded in a general meeting, each voter can exercise as many votes as shares owned by him.

(3) The Government has the power to supersede any or all members of the Board of Directors at any time.

(4) The Bank cannot be closed down without the express sanction of Government.

(5) The rate of dividend cannot be more than 6 per cent. (a minimum of 3 per cent. is guaranteed by Government) unless and until the Reserve Fund becomes equal to the paid-up share capital.

(6) Express previous written permission of Government is required for the Bank to move in numerous matters.

The following extract from the Report of the Australian Royal Commission on Monetary and Banking Practice puts the position lucidly:

In our view, the proper relations between the two authorities are these. The Federal Parliament is ultimately responsible for monetary policy, and the Government of the day is the executive of the Parliament. The Commonwealth Bank has certain powers delegated to it by statute, and the Board's duty to the community is to exercise those powers to the best of its ability. Where there is a conflict between the Government's view of what is best in the national interest, and the Board's view, the first essential is a full and frank discussion between the two authorities with a view to exploring the whole problem. In most cases this should ensure agreement on a policy to be carried out by the Bank which it can reconcile with its duty to the community, and which has the approval of the Government. In cases in which it is clear beyond doubt that the differences are irreconcilable, the Government should give the Bank an assurance that it accepts full responsibility for the proposed policy, and is in

a position to take and will take, any action necessary to implement it. It is then the duty of the Bank to accept this assurance and to carry out the policy of the Government. This does not imply that there should at any time be interference by the Government or by any member of the Government, in the administration of the Commonwealth Bank. Once the question of authority is decided, there should be little difficulty in preserving close and cordial relations between the Commonwealth Government and the Commonwealth Bank.

CHAPTER III

GOVERNMENT WORK

"The Central Bank—a technical arm of Government."

PROVISIONS regarding Government cash balances, treasury work, remittance work and management of the public debt as well as of general investments of Government, embodied in the Act are generally sound. In one respect, no provision has been made. At present, there are a small number of branches and pay offices of the Imperial Bank of India and the Central Bank of India doing business at Hyderabad and at different centres in the interior, with some facilities given by Government Interests of the community in general, of the Bank in particular, require that such branches and pay offices be divested of Government work immediately (even with a compensation, if necessary, for closing down before the period previously agreed on), and the branches of the Hyderabad State Bank be opened in such places either at once or according to a programme to be agreed on between Government and Bank. Otherwise there is a danger of such branches and pay offices managing matters in such a way as to leave the position much worse than at present—when they actually leave later. Here, the analogy may be quoted of the Hyderabad Government purchasing the N.G.S.R. twenty months before the actual expiry of the lease, for similar reasons (see *Hyderabad Railway Purchase: An Economist's Review*, 1930, by S. Kesava Iyengar). The policy should have been announced in the Act and detailed arrangements should have followed by settlement in each individual case.

The arrangement between the Reserve Bank of India and the Imperial Bank of India made in 1934–35 does not stand on all fours with the position here. By 1934, the Imperial Bank of India had established a large number of branches in the country, and it was a body incorporated in British India. It was also a scheduled bank although of a special status. The future of the Imperial Bank of India had to be in British India only. British Indian area was large, and it would naturally take a long time for the Reserve Bank of India to establish even a minimum number of branches in view of the entrusted work. For these reasons, an agreement was made for 15 years, continuing Government work with the Imperial Bank of India in all places in which the Reserve Bank of India had no branches but the Imperial Bank of India had, on fairly liberal terms.

Here in Hyderabad, branches and pay offices of the Imperial Bank of India (6) and the Central Bank of India (9) are few and far between, and it is only in those places in which business conditions justified a branch or a pay office, these banks started and worked them. With the starting of the State Bank, these banks cannot expect any expansion of business for themselves (a local banking organisation will soon emerge) and if the Imperial Bank of India and the Central Bank of India branches are allowed to operate with Government patronage for some time more, their policy would naturally be to make the best of it from the short-period view-point, ignoring the permanent interests of the community: their anxiety would be to close down as early as possible and concentrate on their activities in British India which is their legitimate field.

Several detailed bargains are foreshadowed with regard to the Bank's work for the Government as a banker. For instance, apart from the general privilege of holding Government cash balances free of interest against the general responsibility of doing Government Treasury work, different rates of commission are documented in an "agreement" for collection work, for remittance work, for public debt management and for sales of loans—sometimes at varying rates for differing amounts (commission is also to be paid for the purchase and sale of British Government Rupees). It may be that there is precedent for this in the Reserve Bank of India. But once it is admitted that the profit motive must be eliminated from this Bank, procedure will be simplified and duplication of work reduced by doing away with all these piece commissions and arranging that out of the net profits, items like depreciation fund, pension, leave and provident fund charges, etc., must be met, a dividend sanctioned by Government must be paid to the shareholders, and the *net* balance must go to the Government as ordinary revenue every year. Government is at present buying B.G. Rs. from the State Bank at the standard rate of O.S. Rs 116-10-8 for B.G. Rs. 100. The market rate is somewhat lower on account of heavy exports of merchandise, and the Banking Department of the Bank is thus making profits from out of the difference between the buying and selling rates (from the business community—to the Government) relating to B.G. rupees. Incidentally, this has raised the hopes of shareholders for higher profits, and the market value of the Bank's shares has already gone up to about O.S. rupees 160. It is a matter for grave concern as to whether this sort of tendency on the part of the Bank to make profits from ordinary exchange bank work, should be allowed—lest later on the Bank should become incapable of looking to its responsibilities as the custodian and guardian of banking interests in the Dominions.

This is the arrangement in the Reserve Bank of India.

The rate of dividend to be paid to the shareholders is limited by Section 47 of the Act. This section provides that after making provision for bad and doubtful debts, depreciation in assets, contributions to staff and superannuation funds, and such other contingencies as are usually provided for by bankers, and after payment out of the net annual profits of a cumulative dividend at such rate not exceeding five per cent. per annum as the Central Government may fix at the time of the issue of shares, a portion of the surplus shall be allocated to the payment of an additional dividend as prescribed by the fourth schedule and that the balance of the surplus shall be paid to the Central Government; if however, at any time, the reserve fund is less than the share capital, not less than fifty lakhs of rupees of the surplus or the whole of the surplus, if less than that amount, shall be allocated to the reserve fund. Since the inception of the Bank, the reserve fund has stood at rupees five crores or at an amount equal to the paid-up capital of the Bank. The Central Government have fixed the maximum rate of dividend under Section 47 at 3½ per cent and during the past five years the Bank has paid dividends at this rate. (*Functions and Working of the Reserve Bank of India*, 1941, p. 3.)

For the half year 1940, January to June, the net profit was Rs. 29·28 lakhs. Rs. 8·75 lakhs were paid as dividends on shares and the balance of Rs. 20·53 lakhs were paid to the Central Government. For the year 1940-41, net profits were Rs. 279 lakhs, and Rs. 262 lakhs were paid to the Government of India. For 1941-42, the net profit was Rs. 342 lakhs: the swollen profits were mostly due to war operations.

CHAPTER IV

NOTE ISSUE AND EXCHANGE

"The need of a central bank in the sense of one to control the purchasing power of the money unit became evident and peremptory only when gold was deposed from its role of automatic controller."

MONETARY THEORY

THE whole theory of money and banking has changed during the last fifteen years.

The "rules of the game" laid down by the MacMillan Committee, with the collapse all round of the pre-depression gold bullion standards, of an international gold standard, were:

(*a*) a common agreement as to its aims;
(*b*) an object of policy to secure stability of prices as well as guaranteeing stability of exchange; and
(*c*) the avoidance of action by individual countries which by repercussion imperils the stability of the price level elsewhere.

It has performed no miracles, it has emerged with enduring credit, still perhaps in the rough, but with a definite idea as to the direction of the green, and a brave array of clubs.

The declining importance of gold in matters relating to internal stability is explained by P. B. Whale thus:

1. Since gold movements (or more generally, changes in reserves) and discount rate adjustments are displaced from their central position in the process of international price adjustment, the question of "observing the rules of the game", as this is ordinarily understood, loses much of its importance. Indeed in some cases it will appear desirable that gold movements (changes in reserves) should not be accompanied by a multiple change in the volume of credit money (this apart from the obvious case of temporary movements of gold) and if the ordinary banks maintain a constant ratio between their liabilities and their balances at the central bank, this may require some offsetting of gold movements by the latter. With respect to discount rate variations, it is possible that the abnormal size of international short-term capital movements in recent years has been due in part to the excessive use of this method of regulating the international position.

2. Whilst central bank policy is still important in certain respects, a new importance is given to the policy of the ordinary banks. If it is essential that the volume of credit should speedily adapt itself to changes in trade conditions, a new justification is found for the otherwise rather discredited theory that notes and deposits should be covered by "self-liquidating" loans. (Perhaps the

instincts of the Banking School were right on this point too.) But the restriction of loans to the provision of working capital is not enough For, as the reader has probably been objecting, it is quite possible that manufacturers faced with a declining demand will seek to increase their working capital in the form of stocks of unsold goods, at least for a time; and so far as the banks allow them to borrow for this purpose, the volume of credit will change in the wrong direction. (It is similarly possible that an improvement in trade will lead at first to a repayment of bank loans, but this is not very likely unless stocks have been abnormally large.) The behaviour of the banks in the face of changing trade prospects is therefore of critical importance in my view, and what matters is not so much the rates of interest which they charge as their willingness to lend at all in certain cases. It would seem more probable that the banks would behave in the right way (from this point of view) if they are faced with gradual changes than if they are confronted suddenly with a situation seriously out of adjustment, *e.g*, by stabilisation of the currency at too high a value.

3. It has not been found necessary to refer in the preceding discussion to the question of income and cost rigidities. This only becomes relevant if we are considering not merely the rectification of the balance of payments but also the maintenance of full employment. One of the factors which is often supposed to be responsible for wage rigidity—the payment of unemployment allowances from public funds—may, however, have a bearing on the former issue. So far as the maintenance of the expenditure of the workers in depressed industries is not a mere transfer of expenditure, it must tend both to affect the volume of imports directly and to impair the cumulative process of income contraction.—*Economica*, 1937, pp. 31–32.

The growing awkwardness in sticking to gold and a guaranteed price therefor is explained by T. Balogh thus:

1. Gold production increased from about £80 millions per annum in 1929 to about £245 millions in 1936. A further increase to a maximum of between £280 and £350 millions is likely if basic conditions do not change. The increase in Russian production included in these figures is open to doubt; it has as yet only partially affected other countries, the larger part having been used to increase internal reserves. The non-recurring additions to supply from India and China as well as Western hoards have already been absorbed. Some countries (Japan, France), however, are still releasing gold.

The elasticity of the supply of gold is very low *in the short run.* Russian output is not influenced by cost-price relationships. The general existence of higher grade ore in South Africa than that now milled prevents any quick reaction on her production—either a fall in price or a rise in costs.

2. Current gold production is being taken up primarily by the United States, which alone among the great powers has a fixed statutory price for gold. The British authorities are not bound to maintain a fixed price for gold. They have at times

bought too little to prevent sterling from rising in terms of the dollar and other gold currencies. Most of the weaker countries, even when they are able to buy gold, prefer to hold sterling and dollar securities.

3. The current national income of America is estimated at \$60,000 millions (in 1936) The volume of annual savings was put at \$17,500 millions before the crisis. It can now hardly exceed \$10,000 millions. The current Federal deficit is still expected to reach \$2,500 millions. At full employment, but without a considerable rise in prices and incomes, the national income may rise to \$72,000 millions, and savings to \$12–14,000 millions per annum. The balance of payments of the United States shows a small but growing unfavourable balance on current items including silver, but excluding gold. The import of gold was balanced by a net import of capital into America.

The British gross national income is estimated at over £5,200 millions Current savings are between £500 and £550 millions. The international payments position is similar to that of America.

4. The fluctuation in the national income of America was of the order of magnitude of \$30–40,000 millions. The gross national income of Britain declined by about £550 millions during the great depression. Its subsequent rise is estimated at £1,000 millions.

These facts and the preceding theoretical considerations suggest that the rise in gold production undoubtedly presents a serious problem for a policy calculated to ensure the maintenance of economic stability. The problem must be solved by common agreement and conscious effort.

The possibilities are manifold.

(1) Unchanged price; unchanged freedom of production; no *de jure* stabilisation.
   (*a*) Unrestricted use of gold for multiple credit expansion by England.
   (*b*) Complete sterilisation of the gold production by U.S. and England.

(2) Reduction of the price; maintenance of the freedom of the production,
   (*a*) by introducing an import tax or increasing the handling or seigniorage charge
   (*b*) change in the statutory or *de facto* buying price of the Governments.

(3) Maintenance of present price; artificial limitation of production either by agreed special taxation or by direct limitation, if partial sterilisation and co-operative measures to reduce the impact effect of the gold problem by extending the use of gold should not prove sufficient.—*Economica*, 1937, pp. 287-88.

It may well be that after a time the authorities will come to the conclusion that the *status quo* cannot be maintained, either because of the force of the inflation thereby engendered, or because the strain imposed by the attempt to prevent it, proves too strong. In that

case a restriction of the production of gold is probably the expedient calculated to minimise inevitable disturbances. It does not affect the value of the existing stock and therefore does not lead to a cumulative process of selling. It provides an instantaneous drop in production which is difficult to obtain in the case of Russia and South Africa by a reduction in the price of gold. It is flexible and reversible. An increased demand for commodities by Russia, and a direct stimulation of consumption and investment by the gold producers of other countries may yet be welcome. The world has learned in the last few years how to regulate the output of commodities much less easily controlled than the bulk of gold production. There seems to be no reason why such regulation should not be extended to the gold industry. It would cause far less disturbance than an indiscriminate slashing of the price with all its untoward repercussions on established capital values. Gold producers would, certainly, suffer some loss. This loss could be more equitably distributed than by other methods. And above all the indirect and much more important general scare of deflation would not be raised. In the case of gold, whose special position arises out of its guaranteed price, a direct regulation of production is logical. *Laissez faire,* on the production side only, can hardly be called a rational arrangement. The re-establishment of flexibility on the demand side, however, would be harmful in its repercussions and impossible in practice.

The operation of the system advocated is not simple. But it gives us a rational expedient to regulate our monetary destiny. To demand safety, certainty and simplicity in the present world is to court failure and disaster. It would be politically advantageous and calculated to re-assure America if the remainder of the fiduciary issue was to be replaced by gold. A further measure permitting the absorption of gold—at reasonable cost—would be the increase of the reserve ratio of the Joint Stock Banks to 15 per cent. or 20 per cent. —*Economica,* 1937, pp. 293–294.

Findlay Shirras summarises the position thus with regard to gold at present and in the near future:

1. There has been an enormous increase in the world's gold production since 1932, and this production shows signs of still further increases.

2. The continued import of gold into the United States, due to a flow of capital and to a favourable balance of trade, is now on a phenomenally large scale. At the end of December 1939 the gold stock of the United States reached the record figure of $17,644 million, as compared with approximately $8,083 million in fifty-one other countries. This has resulted in the piling up of huge surplus member bank reserves, and before long these will be $6,000 million. The possibility of uncontrollable credit expansion is obvious. If these excess reserves become loans, and in turn bank deposits, this may lead to violent inflation with a great increase in prices and much speculation, and then finally deflation. The powers of the Federal Reserve System, be it remembered, are limited to a relatively small amount. Goldenweiser rightly emphasises this fact. The system can absorb about $0.9 billion through an increase in reserve requirements,

and it can make sales out of its portfolio of U S. Government securities. Both of these powers could be exhausted without effecting a solution of the problem. The power of the Treasury to reduce reserves or to sterilise gold can be made effective only at the cost of increasing the public debt for the purpose In short, before the reserves created by gold imports can be controlled, new means will have to be devised, and some of these measures may not be strictly monetary action. Speculation may be controlled to some degree by the Board of Governors changing the margins on certain classes of loans and securities. A stringent regulation of bank assets might do much. Taxation, price regulation, the expansion or retirement of public debt, wage policies, etc., are among the non-monetary methods of controlling business conditions.

3 If the present policy continues, the large influx of gold into the United States must continue, and eventually that country will come into possession of almost all the world's monetary gold.

4. The price of gold at $35 per fine ounce is a very attractive one to the producers of gold, and to a further rise in the production of gold from the world's mines.

5. The cost of acquiring the gold exported to the United States is a heavy burden on the country. It is anything but an unmixed blessing to the United States.

6. It is not possible to lighten the real burden of these imports. To reduce the price of gold by only one dollar an ounce would mean a loss of $493 million, in the nominal market value of the stock now held, and were the price to fall to the old mint par of $20.67 per fine ounce—it might even go beyond this if gold were allowed to seek its natural level—the book loss would be more than twice the book profit at the time of the devaluation of 1934. The probable effects on foreign exchange and bullion markets also preclude a change.

7. In the circumstances obtaining to-day, the restoration of the automatic international gold standard is impossible.

8. So long as gold is the one commodity against which no tariffs or quotas will be raised, it must remain essential to the free functioning of any system of international trade and finance. It must continue to function as a standard of international payments.

9. The aim of monetary policy must be to develop a world situation in which the United States would exchange gold for an excess of imports of foreign goods and services. A necessary condition for such a development is the restoration of prosperity in the United States, since experience has shown that imports of raw materials into the United States go up whenever American industry is prosperous. The United States can help the world in the most effective manner by helping itself. President Roosevelt's attempts to achieve prosperity by monetary means, depreciation, cheap money, and budget deficits, have failed. It is to be hoped that more attention will be paid to the fundamental causes which have impeded investment, and therefore led to a prolonged stagnation in American economic life with repercussions on raw materials in India and other countries producing food and raw materials. Exchange control in Europe to interrupt the flow of capital, and perhaps also to limit the demand for American goods, may for the moment be desirable, but the long run policy should be to rid the world of this and other

impediments to trade Other solutions to reduce the great gold hoard might be a flight of capital from the United States, which is improbable so long as Europe believes in the prestige of terror, and investment abroad, which is unlikely to be large except in the event of a return of confidence following durable political settlements.

Mr. Winthrop W. Aldrich, Chairman of the Chase National Bank, New York, in presenting his annual report to shareholders on January 9, 1940, dealt with the effect of the large inflow of gold on the national economy of the United States. He believed that the United States must be the conservator of the world's monetary systems, and for that reason, as well as ample reasons of its own, it must take action to preserve the monetary character of gold. He was opposed, it is important to note, to changing the price of gold in dollars, and he said that goods must move freely and in volume over international boundaries. He strongly urged that steps should be taken without delay to restore a free gold market in the United States, and thus to retain for the United States and the rest of the world a stable monetary value of gold. He was for bringing gold back into ordinary use as money, and urged that the coinage of gold in the United States and the use of gold and gold certificates in general circulation should be resumed. New imports of gold should be paid for in gold coin or negotiable gold certificates. Mr. W. Randolph Burgess, formerly of the Reserve Bank of New York and now Vice-Chairman of the National City Bank, endorsed Mr. Aldrich's views. (Prof. E. W. Kemmerer, Walker Professor of International Finance at Princeton University, also takes this view: vide *Our Present Gold Problem.*) As Mr. Aldrich himself admits, his scheme will not relieve the American economic system entirely from the impact of further gold imports or from the expansive power of excess reserves. Measures for bringing gold back into circulation may be useful from psychological and other points of view even if they do not suffice to solve the present superabundance of gold. Two things, however, seem clear. No change in the price of gold is likely in wartime in view of the difficulties that would arise both to the United States and to gold exporting countries, and after the war the United States must be prepared to assume the leadership in the restoration of a new international monetary system.—*Economic Journal*, Vol. L, pp. 221–223.

The American view is expressed thus by S. E. Harris:

The large imports of capital and exports of goods and the accompanying inflow of gold are the most important explanation of the rise of reserves of member banks. Despite the large increase in required reserves since 1934, the surplus of reserves of member banks has now (April 1940) attained 6 billion dollars. That the government has been able to borrow almost 20 billion dollars and yet depress the rate of interest is in no small part to be ascribed to the rise of reserves and the rise of deposits accompanying and following the growth of member-bank reserves. It therefore follows that in so far as deficit spending has contributed towards recovery (and in fact its contribution depends in part on the capacity to borrow without adverse effects on the rate of interest), the inflow of gold indirectly

induced recovery through its effects on the supplies of funds available to purchase Treasury issues. Furthermore, purchases of property rights with dollars obtained through the sale of foreign currencies contributed towards more favourable prices of securities, capital goods and the like, thus inducing a greater degree of business optimism. These large inflows of capital, I add, are certainly not unrelated to the price at which gold and dollars can be purchased.

Relevant figures are as follows: [Computed from *Treasury Bulletin,* March 1940, and *Federal Reserve Bulletin,* April 1940, and *Annual Report of Secretary of Treasury,* 1934, p. 306. (Figs. for excess reserves from *New York Tribune,* April 19, 1940.)]

$ BILLION

(1) Rise of reserves of member banks from December, 1933 (2.6) to December 1939 (11.6) = 9.0.
(2) Excess reserves early in 1940 = 6.0.
(3) Rise of deposits of *all* banks, December 30, 1933 (38.5), to December 31, 1939 (58.3) = 19.8.
(4) Excess of federal expenditures over revenues, December 1933 to December 1939 = 21.3. (Rise of debt is somewhat less.)
(5) Computed rate of interest on federal debt in 1933 = 3.35 per cent.; 1939 = 2.60 per cent.
(6) Yield on Moody's bonds 1933 = 5.93 per cent.; 1939 = 3.69 per cent.

At the present juncture it does not seem probable that the government will take any significant measures to combat the inflow of gold. They will refrain, among other reasons, because they fear the effects on agricultural prices and exports and because of the fear of a rise of the paper debt. A reduction in the price of gold from 35 to 21 dollars would increase the public debt by an amount in excess of 7 billion dollars.—*Economic Journal,* Vol. L, pp. 229–30.

How different opinion was with regard to the indispensability of gold as the basis for credit, about 1929, is seen from the following extract from Harold Reed:

In all discussions of domestic credit requirements it is to be admitted that international considerations may intervene. In the gold-standard world, gold reserves govern the maximum supply of credit and other currency, and it may not be possible for banking systems in the future to increase their advances year by year in sufficient volume to take care of the growing physical volume of trade. If the future gold supply in the world at large is deficient from the standpoint of physical trade, the pinch must be felt in some countries and create complications for others. But scarcity of gold should not be admitted until every reasonable effort has been made to secure international co-operation in economizing the use of gold. Until efforts of this sort have been exhausted, there should be no abandonment of endeavours to adapt the rate of increase in the credit supply of this country much more closely to the long-time growth in the physical volume of trade than heretofore has been accomplished.—*Federal Reserve Policy,* 1930, p. 201.

Gold is being dethroned *very gradually*: in 1936, Lord Keynes said:

The importance of the large supplies of gold now in sight lies in the fact that they may make possible by more or less orthodox method adjustments, highly desirable in themselves, which we should be less likely to secure by other means. The muse of History is ironically disposed Communist efficiency in the extraction of gold may serve to sustain yet awhile the capitalist system.—*Economic Journal*, 1936, p. 418

In 1827, James Pennington wrote a memorandum in which he advocated the rule enunciated by Palmer later; the securities of the Bank of England to be kept constant so that the Bank's "paper" could expand and contract according to the increase or decrease of its bullion. a principle later incorporated in the 1844 Bank Charter Act. By March 1939, Britain had taken to a weekly revaluation of gold, doing away with all cloaks of orthodoxy: if any one claims still that Britain *is* on a gold standard, it would be similar to the one for monogamy by a person resorting to new marriages after weekly divorces.

The significance of the figures for the Reichsbank reserve as internal cover diminished as the control over markets and prices increased, and the London *Economist* referred to the seventy-odd millions of marks quoted regularly after 1938, as "an ornamental fig-leaf".

A. T. Bonnell further observes:

At what cost did Germany maintain a "goldless" gold standard, carry out the reorganization of agriculture and the development of "ersatz" industries through devisen restrictions, tariffs, quotas, and import Control Boards? If the assumption be made that otherwise Germany would have enjoyed the full benefits of international specialization and exchange without feeling any of the insecurities therewith connected, Germany sacrificed a potentially higher standard of living by adopting various measures of control over international economic relations. However, in the light of the dynamic character of post-war international developments, and in view of the sensitivity of the German economy to disturbances in the world economy, this assumption cannot be made freely.—*German Control over International Economic Relations*, pp. 139–140.

The problem in the U.S.A. is just the antipodes. How to save the money circulating in the country from the huge imports of gold? This question has been examined analytically by James W. Angell thus:

The principal working features of this proposed plan are hence, first, the conversion of the present demand deposit liabilities of the commercial banks into similar liabilities of the United States, but backed 100 per cent. by currency and administered by the

commercial banks as agents; second, the grant to the United States of a lien on the commercial banks' assets equal to the liabilities thus taken over; third, the conversion of the present time and savings deposits of the commercial banks into negotiable serial obligations of varying maturities; and fourth, the virtual stabilization (apart from a relatively slow secular shift) of the total supply of circulating money. Despite the extensive changes in legal relations involved, these proposals require rather little alteration in the actual operation of our present monetary and banking arrangements. In particular, they require in themselves no transfer of existing bank assets to the United States, no forced sales of such assets, no liquidations of existing banking institutions, and no large changes in banking staffs or even in day-to-day banking procedures

The adoption of these proposals will, I believe, achieve the fundamental objectives at which the 100 per cent. plans examined in previous sections all aim. They will make currency and demand deposits completely "safe" in the legal sense, will end the present dependence of the quantity of money on the volume of bank assets, and will permit a rational control of the total size of the stock of money itself. At the same time, they avoid the practical and logical difficulties apparently inherent in these other plans. The plan just outlined gives no invitation to political abuse; it is certainly not inflationary; there is no reason to fear that its adoption would be attended by serious disturbances during the transition period; and it sets up a simple procedure for the management of the money supply over time which, I believe, would yield substantially better results than the others examined above. It would not, of course, eliminate business cycles and other major economic fluctuations The roots of these fluctuations are numerous and widespread, and many of them reach far beyond the workings of the monetary system as such. But by removing much of the reciprocally aggravating effects which are characteristic of the present relations between business activity and the stock of money in periods when the two are changing in the same direction, this plan would greatly reduce the amplitude and severity of the fluctuations themselves. The plan would thus go far toward making money really "safe", both against an evaporation of the money holder's nominal claim (as in the case of bank failures), and against sudden large changes in its value It would thus also go far toward making economic activity reasonably stable. This last, it seems to me, should be the principal ultimate goal of all broad proposals for monetary and banking reform.—*The Quarterly Journal of Economics,* 1935–36, pp. 34–35.

The achievements of the U.S. Treasury in this respect are reflected in the following extract from the *Economist*:

It is probable that if any economist a decade ago had been confronted with the hypothetical question of what would happen to an economy under a gold increment of this absolute and relative magnitude, he would have anticipated an "orgy of inflation". Actually, commodity prices are at about the same level as in March 1938; production has recovered somewhat; employment is a little higher; the foreign exchanges are a little lower; common stocks are somewhat

higher. This is hardly a picture of inflation; and indeed, "inflation mindedness", which has been a recurrent phenomenon in the financial and business community on several occasions during recent years, is conspicuously absent.

The economic position in the U.S.A. has been vitally affected by her entry into the war. In the words of J. R. Hicks:

earthquakes, war and conflagration, Attilla and Chengiz Khan have become great raisers of the marginal efficiency of capital and creators of employment.

The U.S.A. has become not only the arsenal but also the granary of the United Nations.

Britain established a gold bullion standard in 1925, suspended the Gold Clause in 1931, and divorced the sterling from gold by the Currency and Bank Note Act of 1939 whereby gold with the Bank of England is to be revalued every week. The Currency and Bank Note Act of 1939 has freed the British money from both the quantity of yellow metal and its statutory value, by adopting the pound sterling as the standard and by accepting a principle of variable maximum fiduciary issue of paper currency. The fiduciary issue in Britain was in 1919, £19.75 million; 1928, £260 million; 1938, £400 million (with an additional margin of £30 million for Christmas); 1939, £300 million (in the last case, after a revaluation of gold*; and

* The effects of the first revaluation of gold in accordance with the 1939 Currency and Bank Note Act, are shown thus:

ISSUE DEPARTMENT

	Position on February 1, 1939 £	Under proposed legislation £
Notes issued:—		
In circulation	471,948,507	471,948,507
In Banking Department	54,465,750	49,051,493
Fiduciary issue	400,000,000	300,000,000
Gold	126,414,257	221,000,000
BANKING DEPARTMENT		
Capital	14,553,000	14,553,000
Rest	3,566,269	3,566,269
Public deposits	12,261,976	12,261,976
Other deposits	145,442,460	145,442,460
Government securities	77,901,164	83,315,421
Other securities	42,674,228	42,674,228
Notes	54,465,750	49,051,493
Gold and silver coin	782,563	782,563
Ratio of unissued notes and coins to liabilities ("proportion")	35·0%	31·6%
Ratio of gold to circulation	26·8%	46·8%
Ratio of gold to notes and deposits ("reserve ratio")	18·5%	32·6%

For recent developments in the Bank of England, see Table (Appendix C.).

1939 September, £580 million, as practically all the gold was transferred to the Exchange Equalisation Account as a war measure. Later, it was raised to £630 million. Now it is £950 million. The establishment of the Exchange Equalisation Account in 1932 was considered necessary because 1931 onward, the pound sterling was on a "free" basis, and the value of the pound in terms of gold went on fluctuating. Also, there were political considerations in the inflow and outflow of gold.

But these considerations apply neither to British India nor to Hyderabad, both of which have got exchange standards—one linked to sterling, the other to the B.G. rupee The latest general trend is clear from the following extract from M. H. De Kock, *Central Banking*, pp. 97–98:

> A phase of the central bank reserve which has received a good deal of attention in recent years is the desirability of giving the central bank greater freedom and elasticity in the administration of reserves. This has been reflected in the downward revision of reserve percentages all over the world and in the *admission of foreign exchange as part of central bank reserves* and also in the almost general provision for the suspension of reserve requirements subject to the consent of the Government or Treasury *

* For details relating to

(1) currency devaluation,
(2) de-linking of note issues from gold reserves,
(3) exchange depreciations, and
(4) utilisation of gold revaluation profits,

see the concerned Tables in Appendix C.

CHAPTER V

NOTE ISSUE AND EXCHANGE

(Continued)

"With the amalgamation of the two reserves and the Reserve Bank assuming responsibility for the resource operations of the Government both in India and in England, and of the working of the Paper Currency System, not only has an unnecessarily complicated system and the division of responsibility been put an end to but the gold and sterling securities (our foreign balances) portion of the unified reserve has been made available for the only purpose which it can now serve, namely, the stabilisation of exchange."

AS THE ACT STANDS

THE Act has made sound provisions for:—

(1) maintaining the "Currency Department" quite separate from the "Banking Department". "Issue Department" would have been the more appropriate nomenclature: "Currency Department" is not usually in vogue in banks of issue, and it might lead to some confusion between this "currency department" and the "Currency Department" of Government which will continue to mint, print and supply rupee coins and notes respectively;

(2) transferring all the constituents of the Paper Currency Reserve to the Bank's Currency Department to be held and managed by that organisation, including gold and silver bullion, rupee coins O.S. and B.G. and securities of the Government of India and the Hyderabad Government as also sterling holdings;

(3) rupee coins to continue to be struck by Government, but to enter into circulation only through the Bank;

(4) by implication, powers to be vested in the Banking Department to expand or contract the currency by

   (*a*) the policy regarding sale and purchase of treasury bills (if and when issued in Hyderabad);

   (*b*) the policy of transferring Government securities and notes as between the two departments; and

   (*c*) the revaluation of assets in the Reserve against note issue;

(5) discretion to be vested in the Bank to reduce cover of constituents mentioned *supra* to 90 per cent. of the total note liability in times of need, the balance of 10 per cent. to be covered by 'other assets' like internal bills of exchange or other commercial paper authorised as

"eligible" by Government—thus enabling the Bank to render the currency further elastic to that extent; and

(6) the allocation of profits to Government from the Currency Department of the Bank to be done every year: practically all the profit is intended to go to Government.

In the Bank of England there is a similar arrangement. The following extract from W. F. Spalding's *The London Money Market*, pp. 66–67, explains the position in the Bank of England clearly:

> The whole question of profit—on the amalgamated note issues was dealt with in the Currency and Bank Notes Act, 1928, and any profit now made is payable to the Government. Section VI of that Act provides that
>
> (1) The Bank shall, at such times and in such manner as may be agreed between the Treasury and the Bank, pay to the Treasury an amount equal to the profits arising in respect of each year in the Issue Department, including the amount of any bank notes so written off which have been presented for payment during the year and the amount of any currency notes called in but not cancelled before the appointed day which have been so presented.
>
> (2) For the purposes of this section the amount of the profits arising in any year in the Issue Department shall subject as aforesaid, be ascertained in such manner as may be agreed between the Bank and the Treasury.
>
> (3) For the purposes of the Income Tax Acts, any income of, or attributable to, the Issue Department shall be deemed to be income of the Exchequer, and any expenses of, or attribute to, the Issue Department shall be deemed not to be expenses of the Bank.
>
> (4) The Bank shall cease to be liable to make any payment in consideration of their exemption from stamp or bank notes.
>
> It follows then, that the Government now takes all the ascertained net profits on the note issue, and that the Bank is exempted from its original liability to pay £180,000 per annum.

But reconsideration regarding the following points appears to be desirable.

(1) The printing of notes and supply is to continue with Government according to the Act. This is the reason why the Bank has been freed from the responsibility of finding notes of different denominations against other notes or against rupee coins presented, and this is also the reason for the absence of a guarantee of the note issue in the body of the Act—the Issue continuing in the name of the Government itself. It is difficult to understand the grounds on which note manufacture is to be retained by

Government although issue (the right of) is to be transferred to the Bank. One ground may be that it is an insignia of sovereignty and so should not be transferred to a corporation. But such a thing has been done in countries like Britain, in the U.S.A. and nearer home in British India (sovereignty in the U.S.A. and in Britain is not any the less on that account). In working, it will be rather clumsy. Suppose the Bank finds a necessity for enlarging the quantity of notes issued (in view of needs of business),—the scope for this is very great in India generally, in Hyderabad particularly. Securities held in the Banking Department will have to be transferred to the Currency Department. The Currency Department in its turn will have to apply to the Government (Issue section of the Mint) for the new supply required. Printing after all is a very minor affair, and the present arrangement made in the Act is likely to cause delays and deadlocks, while immediate despatch is the very soul of a bank of issue. For instance, the Hyderabad Government have just taken to the issue of one rupée notes*: issue of metallic rupees is limited. Notes of higher denominations have been sometimes at a discount in the market, for instance, in June-July 1940, when a similar trouble faced British India on account of the surrender of France. The export trade of the Dominions has more than doubled, but the circulation of metallic rupees and notes is comparatively stationary. One rupee notes have been issued only in small quantity. The pressure on the Government of India Press making notes is said to be so great that it is not able to meet the demand of the Hyderabad Government for new notes of higher denominations. Again, the provision made in the Act for the expansion of the note issue against a small percentage of commercial bills as backing, has not yet been given effect to. The minting of subsidiary coin has become a problem on account of

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* We recommend that the currency authority should, concurrently with the first issue of notes of the new status, re-introduce one-rupee notes, which should be full legal tender and which, like other notes of the new status, should not be convertible by law into silver rupees. In spite of the fact that the issue of one-rupee notes may retard the absorption of the surplus silver rupees now in the Reserve, we consider it worth while incurring such retardation in order to popularise the use of notes, and to prepare the way for dealing with such an emergency as a rise in the price of silver above the melting point of the rupee. The alleged comparative expense of small notes seems a consideration that is negligible in comparison with these advantages. We do not recommend the re-introduction of 2½ rupee notes.—*Hilton-Young Commission Report*, 1926, p. 30.

fabulous rise in the price of the concerned metals. Thus there is in the market these days great pressure of demand for metallic rupees, notes and small change. Our plea is that if at least the printing and supplying of notes (including one rupee notes) had been entrusted into the hands of the Bank, that Bank should have been able to arrange for timely supply. The present situation also proves that very soon, even the provision for expansion of the note issue suggested in this volume will soon become insufficient, and the extent of the fiduciary issue would have to be expanded—either by raising the limit quantitatively or by lowering the percentage of cash backing.* Conditions demand quick action in the matter, but as yet no decision seems to have been taken One is reminded of the complicated arrangement on the N.S. Railway line running on British Indian soil to Manmad Sovereignty is with the British Government, possession with the Nizam's Government and jurisdiction (civil and criminal) as well as currency is British.

(2) There was a time when the Government of India maintained a Gold Standard Reserve and a Paper Currency Reserve, the former meant for exchange maintenance, the latter for maintenance of convertibility of note issue. In his financial reforms in 1332F. (1922-23), Sir Akbar Hydari seems to have followed suit and organised two new reserves—the Osmania Sicca Stabilisation Reserve for exchange maintenance (otherwise the title of the Reserve —"Osmania Sicca Stabilisation Reserve"—could not have any meaning) and the Paper Currency Reserve for convertibility of notes. But, with the *Hilton-Young Commission Report* and the establishment of the Reserve Bank of India, the two British Indian reserves were amalgamated into one—the Reserve in the Issue Department. What do we find the Hyderabad arrangement to be? Note issue and exchange reserves continue to be separate: the issue of notes is to be through the Bank (printing and supply to be by the Issue section of the Mint) : exchange stability is to be determined from time to time by Government and carried out by Bank.

(3) In actual practice till now, the burden both of convertibility and exchange has been borne by the Paper Currency Reserve alone: the Osmania Sicca Stabilisation Reserve

* See the Note at the end of Chapter VI.

which is the *real* reserve meant for exchange maintenance has been in "cold storage" for 20 years, having been invested in long-term securities. The situation reminds one of the conditions of the Gold Standard Reserve in 1925:

Location		Amount
In England—		£
British Government Securities	..	40,419,244
Cash at the Bank of England	..	514
In India	..	Nil
Total		£40,419,758

The use of the liquid funds of the Paper Currency Reserve for exchange purposes was a serious transgression of elementary currency principles—specially in view of two separate reserves maintained distinctly apart for the two different purposes.

(4) Now, with regard to the restriction laid down by the 1327F. Paper Currency Act: that Act says that not more than one-third of the Paper Currency Reserve could be held in securities and the balance should be held in cash.* We are nearing 25 years after that Act was passed, and if a conservative people like the British increased their fiduciary issue from £18·45 million in 1914 to 300 million in 1939, it stands to reason that due regard should be paid to the needs of expanding business activity in the country by providing sufficient margin both for temporary seasonal accommodation and for reflation. The 1327F. Act appears to stand in need of amendment accordingly: not for the State Bank, but as a normal course: even if the Hyderabad State Bank had not been started, the urgent need for enhancing the maximum issue of notes against securities should have been responded to by Government by suitable amendment.* And now it is time that the Osmania Sicca Stabilisation Reserve should be amalgamated with the Paper Currency Reserve, and there being no legislation at all with regard to the Osmania Sicca Stabilisation Reserve, it is most appropriate that a Consolidating Act should be put on the Statute Book—comprehending Currency, Exchange and State Bank matters.

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* See the Note at the end of Chapter VI.

CHAPTER VI

NOTE ISSUE AND EXCHANGE

(Continued)

"So long as we preserve private enterprise and wage slavery, we should not refuse to wink at a little judicious use of the money pump if the tyres of industry seemed to be sagging unduly."—D. H. ROBERTSON.

CHANGES NEEDED

THE foregoing facts and views show clearly that gold has been fast losing its importance as international "cash" as well as the most important constituent of the reserve against internal cash. If still gold commands esteem, this is due partly to tradition, partly to the hope that some day gold *might* regain its old position.* The general trend all round is to adjust cash to business requirements: in order to inspire confidence internally and respect externally, every country has been of course trying to maintain as much of gold in reserve as possible. But here in Hyderabad, our gold portion of the reserve is practically nil, and the most important item in the reserves is the rupee coin—B.G and O.S. Silver commands much less international esteem than gold, is much more susceptible to frequent and wide fluctuations in price, and the rupee coin itself is a token coin. (Of course except when the melting point of the rupee is reached on account of soaring prices of silver—as after the last Great War). To wear gold bangles is tangibly a loss from the business view-point, but to wear silver-plated bangles could serve only one purpose: the satisfaction of imitating somebody else who is much better off. The scientifically correct ideal should be therefore primarily to adjust the size of currency (note issue) to the needs of business, and incidentally to maintain as much as possible of the reserve in gold.†

A gold purchase policy should enable the Bank firstly to raise the prestige of its Reserve (gold ratio rising higher), incidentally minimising the outflow of non-monetary gold, from within the frontiers, and secondly of injecting new purchasing power into the economic system as against the purchased gold, which is bound to encourage economic enterprises in the land. This policy has the advantage of not depending on foreign stocks of gold.

The Hyderabad State Bank Act does not touch on either of these essential reforms in the Hyderabad currency system.

Experience all over the world shows that there is no longer any need for continuing the two reserves separately. It is true that there

* See Appendix D containing proposals for post-war reconstruction.
† See the Note at the end of this Chapter.

is the Exchange Equalisation Account in Britain, meant to deal with exchange matters while the Bank of England maintains "convertibility" (from one denomination of notes into another or into subsidiary coin). That arrangement of the Exchange Equalisation Account was inaugurated when it was felt that conservation of gold was highly important in view of the prognostications by the Macmillan Committee. The support for one common reserve here is as strong as in the case of the Reserve Bank of India which holds only one consolidated reserve for both purposes.* The only right course, therefore, is to transfer to the Currency Department of the Hyderabad State Bank the Osmania Sicca Stabilisation Reserve and the Paper Currency Reserve —both to constitute a new Reserve of the Currency Department of the Hyderabad State Bank. The new position would be as follows:

† *Currency Department Reserve of the Hyderabad State Bank*
(*In lakhs of O.S. Rupees* 1 *lakh* = 1,00,000)

Liabilities		*Assets*	
Gross note circulation	1764·87	*Cash*: from Imperial Bank of India (in B.G. form)	675·03
Margin for reflation	309·95	from Central Bank of India (in B.G. form)	48·43
		O.S. exchange branch	374·68
		Currency chests	90·56
		Total cash	1,188·70
		Securities: *B.G.* from Osmania Sicca Stabilisation Reserve	309·95
		from Paper Currency Reserve	531·17
		Total B.G. Securities	841·12
		O.S. Nizam's Govt. Promissory Notes	45·00
		Total Securities	886·12
TOTAL	2074·82	TOTAL	2074·82
Maximum accommodation for seasonal expansion	230·54	"Other assets"—trade bills, etc., authorised by Government	230·54
GRAND TOTAL	2305·36	GRAND TOTAL	2305·36

† See the Note at the end of this Chapter.

* Compare the following extract from the *Indian Journal of Economics*, Vol. XX, pp. 540-1.

There will be no need for separate exchange stabilisation funds and the unified and centralised reserves will take over their functions or rather be used for the only functions which, owing to the evolution of the

The Act allows the present category of assets to go down to 90 per cent. of total note liability, with express sanction of Government, on payment of a tax. Thus, the maximum margin for seasonal expansion of the note issue would be Rs. 230·54 lakhs. Even this amalgamation of the two reserves and the provision for reducing present items of assets to 90 per cent of the total note liability, would not make the arrangement quite suitable for future requirements. In the consolidating legislation, the best thing would be to lay down the principle of variable maximum fiduciary issue as in Britain—so that with the permission of Government the size of the fiduciary issue could be adjusted upward (even lower if called for) in order to provide an adequate credit base.

As the Act stands, the metallic cash in the Paper Currency Reserve cannot go lower than 60 per cent., nor Government securities higher than 30 per cent.—even on payment of a tax. The Hilton-Young Commission recommended the gradual withdrawal of the rupee, the British Indian rupee has been recently reduced in fineness from 165 to 82·5 grains per coin, the rupee note is being interpreted as coming within the definition of the phrase "rupee coin" under the Defence of India Act, and a token coin cash basis of 60 per cent. minimum cannot by any means be agreed to as the rock-bottom level against a note issue in the forties of the twentieth century. Currency profits go in any case to Government, and it would be more scientific for Hyderabad to anticipate rather than to follow the Government of India by accepting the principle of a variable minimum percentage of gold if not a variable fixed maximum fiduciary issue.

The investment of the B.G. "cash" of the Paper Currency Reserve with the Imperial Bank of India on short-term deposit terms was a transgression of the 1327F. Paper Currency Act This Act

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currency systems has devolved upon them. These changes have already taken place in India and show that the line of development is logical and will be a great improvement from every point of view. We had our Paper Currency and Gold Standard Reserves which were reinforced by the Treasury Balances maintained in India and in London. They, taken together, were our exchange stabilisation fund; but with the amalgamation of the two Reserves and the Reserve Bank assuming the responsibility for the resource operations of the Government both in India and England and of the working of the Paper Currency System, not only has an unnecessarily complicated system and the division of responsibility been put an end to but the gold and sterling securities (our foreign balances) portion of the unified reserve has been made available for the only purpose which it can now serve, *viz.*, the stabilisation of exchange. The fact, that in actual practice this reserve has been used for pursuing and supporting a wrong exchange policy, and we have been bound more closely than ever to the chariot-wheel of the City of London, does not affect the validity of the argument. These are the perversions of the unified system of reserves and are due to a measure of our political subjection. But as a mechanism the new system marks an advance upon the previous position and indicates the natural line of evolution for the reserve system in every country.

insists on at least two-thirds of the Paper Currency Reserve being held in Cash—B.G. and O.S. put together. In Section 19, Schedule II, Part I A-6 of the Hyderabad State Bank Act, it is clearly admitted that the Bank shall have the "custody and management" of the various Government "reserves" and it has also been accepted that the Bank is the 'sole banker' of Government. These terms are categorical and the Imperial Bank of India and the Central Bank of India must be, in the name of consistency, immediately divested of all Government funds.

Before the N.G.S.R. Company was wound up in 1930, the cash balance of that railway company was with the Imperial Bank of India on "current" account—not earning any interest. Such an arrangement was probably necessary for the sake of availability of ready cash. It is now over twelve years the Railway became a Government Department (although a commercial one) but even to-day about three-quarters of a crore of railway cash balance are with the Imperial Bank of India on "current" account while the general cash balance of Government for obvious reasons has steeply gone down from over four crores to less than a crore. As in the case of other commercial departments of Government, the cash balance of the State Railway Department ought to have been in the Government Treasury, thus adding to its prestige. Further, about a crore of railway funds have been borrowed by Government on practically the same terms as those on which the B.G. cash of the Paper Currency Reserve has been held by the Imperial Bank of India In other words, part of the ordinary cash balance which is the property of Government is with the Imperial Bank of India interest free, while another part is with Government on interest! Thirdly, about a crore and a quarter of railway funds are invested in the purchase of Hyderabad Government Promissory notes! Why interest is being paid on ordinary cash balance, why ordinary cash balance is with a private bank interest free, and why the "cash" (B.G.) of the Paper Currency Reserve is invested on short term, can be explained only one way. At successive stages of financial and railway administration, different arrangements were agreed to more in the nature of make-shifts than of permanent nature. A thorough rearrangement with the Bank as the cashier of Government is overdue.

While the Government is making part of the 22 lakhs (or thereabouts) on account of this untechnical practice of 'investing' B.G. "Cash",* the revenue loss is greater every year on account of the

* In these figures, net income to Government is shown, comprising interest (on the long-term securities, the short-term deposits of B.G. "cash" out of the Paper Currency Reserve with the Imperial Bank of India, and the profits made by Government on account of exchange transactions (out of the funds of the Paper Currency Reserve). But income to Government on account of interest on

present way of handling railway funds, and the loss to the masses is to the tune of several crores on account of the wide differences between the minimum and maximum rates of exchange: the happiest people in Hyderabad have been the exchange dealers—getting a decent three per cent. at least for a few months for a snap of the fingers, and utilising the funds on other business for the rest of the year. *The interests of the goose that lays golden eggs are most important.* Government could easily expect more than to make up for this by the consequent diversion of capital to productive channels and greater production, greater transport, larger customs receipts—and may we add—larger income-tax receipts if and when levied Another weighty consideration against locking up B.G "cash" in time deposits is that the B.G. rupee is *current within the frontiers of the State* by law (as for example in administered military areas, in certain railway stations, in banks and in British Telegraph and Post Offices) and by tradition in certain frontier districts.

Finance in India has not played the part that it has played in Western countries in helping prosperity: the "soundness" of Indian finance has been often judged by superficial criteria like sanction by custom, economy, satisfaction of contractual obligations and surpluses: regressive taxation and deflation have often been the instruments towards satisfying such criteria. The result of all this has been that this country has been a victim of passive financial inactivity alike in times of recession as

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the Osmania Sicca Stabilisation Reserve is not included here; the Government figures include this item under "interest" (general). Strictly speaking, just as the amount earned on funds of the Paper Currency Reserve is shown as income on that Reserve, similarly the interest on the Osmania Sicca Stabilisation Reserve should have been shown as income on the Head of "Exchange".

Year	Net income to Govt. in lakhs of rupees
1923-24	7·90
1924-25	8·16
1925-26	6·00
1926-27	0·81
1927-28	3·96
1928-29	16·77
1929-30	13·44
1930-31	19·92
1931-32	17·03
1932-33	19·44
1933-34	17·27
1934-35	19·38
1935-36	20·04
1936-37	21·14
1937-38	22·08
1938-39	19·66
1939-40	23·42

of war. On the other hand, in countries like Britain and the U.S.A., the technique of deficit spending and of easy money through open market operations and timely reflation, has proved a powerful instrument in national economic reconstruction.

This amalgamation of the two reserves and the abolition of the practice of making short-term deposits of B.G. "cash" of the Paper Currency Reserve would strengthen the Bank's hands in order to keep the "cash" in Paper Currency Reserve really in cash or on call money terms, and also to narrow down the exchange limits* to 116 and 117 (1 per cent., 2 pies per rupee) and this in its turn would divert a large amount of capital, which is now used in exchange business, to productive channels, as it would no longer be worthwhile locking up funds for such small and uncertain

* The following order has just been promulgated through a *Gazette Extraordinary*, which shows the progressiveness of the new Finance Member, the Hon'ble Mr. Ghulam Mohammed, C.I.E., in currency, exchange and banking matters:—

H.E.H. the Nizam's Government will, until further notice issue, (*a*) O S. currency at Hyderabad in Exchange for B.G. currency Notes or approved Demand Drafts on Bombay at the rate of O.S. Rs. 116 per B.G. Rs. 100, and (*b*) Demand Drafts on Bombay for O.S. Rs. paid in Hyderabad at O.S. Rs. 117 per B.G. Rs. 100.

According to a further order, published in the Government Gazette of the same date, the rate of authorised exchange for all conversions has, until further orders, been fixed at B.G. Rs. 100 equal to O.S. Rs. 115-14-0 in respect of all District and Tahsil Treasuries within H.E.H. the Nizam's Dominions. The B.G. Notes and Coins offered for payment will be converted at this rate at all District Treauries within H.E.H. the Nizam's Dominions. Except at the Tahsil Treasuries at Adilabad, Ambad, Gangapur, Jalna, Kannad, Patan, Vijapur, Yadgir, Devdrug, Gangawati, Kushtagi, and Sindhnur, individual demands for the conversion of B.G. Currency into O.S. Currency will be met as far as possible, up to B.G. Rs. 2,000 and a week's previous notice will be required to meet larger demands. Tender of O.S. Rupees for exchange with B.G. Rupees will not be accepted by Treasuries within H.E.H. the Nizam's Dominions.

The promulgation of the present order marks another important step taken by Government in its effort to reduce the margin of fluctuations in exchange in such a way as to make them conform to the needs of the country and the interests of the agriculturists and the public at large, the ultimate aim being gradually to work towards a further narrowing down of the limits as near the standard rate as possible.

It may be remembered that His Exalted Highness' Government has, during the last several years, adopted a number of measures with a view to creating public confidence in the O.S. Currency and cultivating the banking and investment habit among the people of these dominions. It was with this end in view that a reduction in the minimum and maximum limits of exchange was effected in 1934 from Rs. 114-12-0 and Rs. 119 to Rs. 115-10-0 and Rs. 118-12-0, respectively. Another measure adopted for this purpose was the acceptance by Government of the Halli surplus earnings of the State Railway in payment of Government dues and the supplying of B.G. Currency for payment abroad at the average selling rate of exchange. A third step was the opening of the Central Bank branches in the Dominions at a number of places, on condition that the O.S. Currency is used in all their internal transactions.

A direct result of all these measures has been that the exchange rate, which used to reach the maximum of Rs. 119 in August or September after touching the minimum of Rs. 114-12-0 during the Cotton season, is now regulated within much narrower limits and very near the standard rate.

gains. From the view-point of sound currency and banking, whatever the immediate apparent loss, the present proposal to continue to invest the whole of the Osmania Sicca Stabilisation Reserve in long term, and invest practically the whole of the B.G. "cash" in short-term deposits with the Imperial Bank of India, finds no parallel in modern peace-time currency and exchange practice.

There is no arrangement for the "ratio" as in the Reserve Bank of India Act. In the latter, the ratio of "A" in Assets to total note liability is given in every weekly statement. "A" consists of:

(*a*) gold coin and bullion held in India and abroad, and

(*b*) sterling securities.

The other items on the Assets side, namely, rupee coin and rupee securities, are classed separately. The Hyderabad Act provides for a 100 per cent. cover, *all items*—gold bullion, B.G. Rupees, British Indian securities, O.S. rupee coin and Hyderabad securities —*being given the same status* The strength of the exchange here depends on gold, B.G. coin and British Indian securities—just as it does in British India on gold coin and bullion and sterling holdings. As the Hyderabad State Bank is being entrusted with exchange maintenance work also, a separation of gold, B.G. rupee coin and British Indian securities from local rupee coins and securities in classification, and the weekly publication of the ratio should help publicity.

By arrangement suggested above, the Hyderabad State Bank would secure

(*a*) the strength of maintaining Rs. 723 46 lakhs (in B.G. form) and O.S. Rs. 465.24 lakhs in O.S. cash or call money;

(*b*) the B G. rupees and securities (corresponding to gold and foreign exchange) "ratio" of 75.45 per cent., and

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The duty of maintaining the stability of the external value of the Osmania Sicca Rupees is now entrusted to the Hyderabad State Bank which is required for this purpose to sell and buy B.G. Rupees within the limits fixed by Government. This method of purchasing B.G. Rupees in Hyderabad affords the Sahukars and merchants a convenient method of transferring their funds from important business centres in British India to Hyderabad during the season when, usually, there is a keen demand for remittance to Hyderabad; it also tends to relieve the seasonal stringency in the Hyderabad Money Market.

It is interesting to note that this procedure of maintaining stability of exchange is similar to the one followed in British India, with this difference, that, whereas the Reserve Bank of India has the obligation of meeting the exchange requirements of the Government of India by purchase of sterling from the scheduled banks by weekly tender, the Hyderabad State Bank is under no such obligation, the purchase and sale of B.G. Rupees here being effected through cash assets of the Currency Department. His Exalted Highness' Government are thus in a position to meet the exchange requirements of the State to the fullest extent within the present revised limits of Rs. 116 and Rs. 117 with the active co-operation of the **Hyderabad State Bank.**

(c) the "cash" ratio of 51·56 per cent. even when the Bank reached the maximum point to be allowed by the Act including the margin for seasonal expansion (Rs. 230.53 lakhs) and for needs of reflation (Rs. 309.95 lakhs).

It is interesting to compare these ratios with the ratios obtaining in British India. On 30-1-1943, the ratio of gold and sterling securities (corresponding to our B.G. rupees and B.G. rupee securities here) was 80.026 per cent. and the cash ratio was 20.76. The 1938-39 (pre-war) average ratios were 52.9 and 52.8 per cent. respectively. The example of the Reserve Bank of India might support Government procedure in this matter: most sterling holdings, are in the shape of sterling securities and not "cash". But this is a matter in which to take inspiration from British Indian practice would be, to say the least, dangerous. The huge losses borne by the Secretary of State for India on account of India in 1906-07 and again in 1918-19 by sales of reverse councils and consequent sales of sterling securities at prices much lower than paid, are written in indelible ink in Indian currency history.

Thus, while the stabilisation of currency, credit and exchange has been shown as one of the objectives of the State Bank in the preamble of the Act, the terms of the Act

(a) propose to continue the right of printing notes with Government;

(b) do not narrow down further the limits of exchange, the present maximum and minimum rates being Rs. 115-10 and Rs. 118-12 (very recently reduced to 116 and 117);

(c) do not guarantee the maximum and minimum rates by Statute;

(d) do vest discretion to change the maximum and minimum rates from time to time in Government; [This would make the Hyderabad monetary system a "free" standard instead of an "exchange" standard, and to that extent could not raise public confidence further. It is true that *relative* stability* is more valuable than *absolute*, but at

* The Royal Commission appointed to inquire into monetary and banking systems in Australia in 1937 made the following important enunciation about price stability and exchange stability as ultimate objectives:

The Commission rejects both price stability and exchange stability as the ultimate aims of banking policy. It enunciates as the main task the reduction of fluctuations in general economic activity in Australia, thereby maintaining such stability of internal conditions as is consistent with the change which is necessary if economic progress is to take place.. .... It demands different action at different times and it requires a common attack on all fronts—the Commonwealth Bank, the trading banks, the Government and the general enterprise of other financial institutions.—*Economic Journal*, 1937, pp. 687-8.

While the narrowing down of exchange limits is all right for normal times, the three years of war have brought about circumstances which justify either a

the present stage of our knowledge and machinery for data and economic independence, it can hardly be argued that the discretion to vary exchange rate be kept on. Even in the U.S.A. with the "unused margin", the dollar is maintained at one level since 1934. Just as it has been done in the Reserve Bank of India Act, the minimum and maximum rates for the British Indian rupee being $1\text{–}5^{49}/_{64}$ pence and $1\text{–}6^{3}/_{16}$ pence by statute, similar maximum and minimum rates should have been guaranteed in the Act. Even now, this is a point which should improve the legislation fundamentally];

(*e*) provide for the continuance of the Osmania Sicca Stabilisation Reserve as an ordinary reserve of the Government invested in long-term securities;

(*f*) intend the continuation of the burden on the Paper Currency Reserve, of maintaining both convertibility and exchange;

(*g*) do not provide for the weekly publication of the exchange stability and convertibility ratios;

(*h*) contemplate a similar continuance of the B.G. "cash" of the Paper Currency Reserve with the Imperial Bank of India as short-term deposit (now through this Bank as the intermediary) earning interest for Government, and

(*i*) do not appreciate and foresee normal needs of reflation.

The suggestions made *supra* will remove all these complicated and objectionable features and ensure, in the words of the preamble of the Act, "stability and security of the currency".

Convertibility, stability (internal and external), elasticity and reflation are closely interwoven and the best arrangement would be for the State to hand over the *whole function* to the Bank (even there Government has the upper hand always), which has great potentialities for contributing to the evolution and working of a full employment plan for the Dominions. The arrangement contemplated in the present Act leads nowhere.

NOTE ON THE BALANCE SHEET PROPOSED ON PAGE 30

(*Translation of A.-G.'s Notification No. 9, dated 23-4-52, published in Gazette No. 14, dated 6-5-52.*)

"In exercise of powers conferred under Section 7 of the Paper Currency Act No. 2 of 1327 F., and rescinding the Notification No. 4 D/-3rd Dai 1352 F., published in the Government Gazette No. 7 D/-26th Dai 1352 F., Volume II, it is hereby notified by order of Government that pending further orders the maximum amount of the Paper Currency, issued by the Currency Department, would be a limit of Rs. 30 crores."

"hands off exchange" policy for the duration, or an overvaluation of the O.S. Rupee in view of the growing favourable balance of payments and the relative inflated condition of the British Indian currency. This has been discussed in a later chapter.

During the last one year, the note circulation in Hyderabad has increased, almost reaching Rs. 25 crores, the reason being just the same as in British India: there, the accumulation of sterling balances meant the automatic increase in note issue: here, the note circulation is fast rising against accumulation of B.G. rupee balances with the Imperial Bank of India, which B.G. rupee balances are due to a high favourable balance of payments But *the* point to be noted is that under the present system, neither the "cover" test is loyally adhered to (time deposits with the Imperial Bank of India are not the same thing as metallic cover) nor the "need" test: already we are having inflation-mindedness here in view of the extra rapidity with which the note circulation is increasing, and the failure of production to keep pace with increased nominal purchasing power. As in British India, so here, the time is sure to come when after the war boom, the balance of payments will turn against us, the B.G. rupee deposits with the Imperial Bank of India will dwindle on account of heavy drafts cashable at Bombay, and internally it must mean heavy deflation spelling low prices and unemployment. The authorities must from now make up their minds, and learn to delink the note circulation from B.G. rupee accumulations: they must have recourse to means similar to those adopted in the U.S.A. in 1934-40 to avoid inflation in spite of heavy gold imports, namely, sterilisation of B.G. rupee assets, adjustment of reserve ratios, adjustment of collateral requirements, deficit spending (meaning the same thing as investment budgeting), open market operations, and real estate loans. The present would be very auspicious time for the Hyderabad State Bank to earmark, say, five crores of rupees for financing land mortgage banks: this would reduce the chances of inflation from the view-point of quantity of money, as also augment production, reducing further the chances of relative inflation

The recent reduction in the fineness of the rupee from eleven-twelfths to a half is a move, not identical with, but analogous to the revaluation of gold in Britain in 1939. The step taken in British India and Hyderabad amounts to something like attaching a new value for the silver contents of the rupee—by reducing the silver contents in view of appreciation of silver in the market. Once such step is taken, there is nothing to prevent the authorities from further reducing the silver contents of the rupee—as well for other reasons than an appreciation of silver. That is to say, the principle for determining the quantity of money circulating in the country is bound to develop into an estimate of currency needs in the country, and not the quantity of silver held in the form of rupee coins, nor an unchangeable ratio between the quantum of the rupee coin and the quantum of fine silver therein. As has been pointed out elsewhere in this work, such a relegation of silver from the *main* determinant of the size of currency into *one* of the items in the reserve meant for exchange stability and price stability, must further persuade the authorities to see that between silver and gold, the latter metal is any day more desirable to maintain in the reserve—in view of its higher international acceptability, and its higher stability of value. The plea put forward here is that while the note issue in the country should be determined on the assessment of the currency needs of the country, the metallic backing in the reserve should be constituted in gold, silver being relegated to a minor place. *And the gold must be held by the Bank*: it is only refugee gold that is deposited: the Reserve Bank of India holds its entire gold stock.

CHAPTER VII

COMMERCIAL FINANCE

"The development of joint-stock banking can only proceed safely under the shelter of a true central bank."—FINDLAY SHIRRAS.

THE work of a central bank as the Bankers' Bank consists of

(1) holding cash reserves of the commercial banks (controlling cash ratios of commercial banks) and organising deposit insurance;

(2) rediscounting and lending in the last resort;

(3) control of deposits, investments and profits of commercial banks;

(4) controlling credit by adjustment of margin of collateral against security loans, money rates and bond yields by open market operations,

(5) central clearing, settlement and transfer, and

(6) compiling, supervising, scrutinising and publishing banking statistics, specially commercial.

In actual practice, these functions are of course not exclusive.

DIRECT DEALINGS

In all these matters the prime fact is that the central bank *cannot and should not compete* with the primary commercial banks of the country: *one cannot be an umpire and a player too*

The trend towards the restriction of direct dealings with the public, whether on the part of old or new central banks or whether arising out of statutory provision or adoption of traditional practice is based on the following facts:—

(*a*) that the central bank should aim at maintaining a position of great strength and liquidity in normal times in order not only to cope with unusual seasonal demands for credit but also to deal effectively with emergencies and periods of general financial strain;

(*b*) that if the central bank is also engaged in a large commercial banking business, its liquidity is likely to be affected for the same reasons and in the same manner as that of the commercial banks and other credit institutions and, consequently, that its capacity to come to their aid with rediscounts in times of emergency would be impaired, depending upon the extent to which it was involved in ordinary banking transactions;

(*c*) that the use of the direct dealing with the public as a measure of credit control, either as an alternative or an addition

to open-market operations, is of limited scope, since in contrast to the indirect and impersonal nature of the latter it involves direct and personal contact with the borrower and a certain amount of responsibility for meeting his legitimate requirements, which would tend to prevent the central bank from applying drastic contraction of credit to its customers as a means of reducing the credit base and bringing about credit contraction generally;

(*d*) that in the interests of the banking and credit structure as a whole it is highly desirable for the commercial banks to keep their excess cash reserves (*i.e.*, over and above their till money requirements) with the central bank, but that where the commercial banks are not required by law to maintain minimum reserves with the central bank, they cannot be expected to do so voluntarily to any great extent if it actively competes with them in their special fields of business, and that where statutory minimum reserves are laid down the commercial banks cannot altogether be blamed for resenting what they consider to be the central bank's use of their own funds against them in competition for business, and

(*e*) that for the successful performance of some of its functions the central bank depends largely upon the whole-hearted support and co-operation of the commercial banks, and that such co-operation can be effectively obtained only if the central bank refrains from competing directly with the commercial banks in their ordinary banking business, except when compelled to do so in the national economic interest.—*Central Banking* by M. H. De Kock, pp. 331-32.

The Reserve Bank of India Act, for example, stipulated that the powers of direct discounts and advances should be used only when a special occasion has arisen making it necessary or expedient that such action should be taken for the purpose of regulating credit in the interests of Indian trade, commerce, industry and agriculture.—*Central Banking*, De Kock, p. 329.

THE SOUTH AFRICAN RESERVE BANK

In 1928, there were only three commercial banks working in South Africa, all with headquarters outside. Deposits in banks then stood as follows:

	£
For Canada	450,000,000
„ Australasia	374,000,000
„ Great Britain	2,225,000,000
„ South Africa	98,000,000

W. H. Clegg, Governor of the Reserve Bank of South Africa, argued thus against allowing the central bank to compete with commercial banks:—

Although it is desirable that in highly developed banking countries there should be such co-operation between the central bank and the

commercial banks as would be impossible if there were active competition, it is not only or even mainly on that ground that I deprecate such competition. The chief reason is that it is impossible for a central bank to compete effectively with the commercial banks and still remain an effective Central Bank. I have seen it argued that the English commercial banks accept the competition of the Bank of England without grumbling because they know that the Bank of England is inspired by altruistic motives. But as a matter of fact the Bank of England controls credit, not by competing with the other banks in the field of their ordinary business, but by doing business at times when the other banks are deliberately restraining their activities. For instance, at the end of each month and half-year the commercial banks, desiring to make their position more liquid, call in some of their loans to the money market, which then has to borrow from the Bank of England. It is the anticipation of the rate which may be charged by the Bank of England, when the market has to depend on it for a fresh supply of credit, which keeps outside rates in some relation to the bank rate. On the other hand, if the Bank thinks it necessary to curtail the amount of credit, it sells stock or Treasury bills or borrows on them in the open market. In this step also there is no competition with the other banks. In the United States, again, the Reserve Banks do no business at all except with the member banks or the open market, and thus do not compete at all with the commercial banks for ordinary business.

It does not seem to be generally understood how almost impossible it is for Central Banks to compete effectively with commercial banks. To keep its connections together is the vital need of an ordinary bank, and to do this it must meet all the reasonable, and sometimes the unreasonable, requirements of its customers through financial weather, fair and foul. But when a Central Bank has on its mind the anxious duties of regulating credit and maintaining its metallic reserves, it can have no thought for its ordinary customers, and therefore it cannot expect to retain their custom. *The constant tendency for the old true Central Banks who have customers is gradually to lose them, and there is, therefore, not much temptation for a new Central Bank to go out of its way to cultivate a connection of ordinary banking customers.* (Italics are by the authors.)

There is another reason why active competition with the commercial banks is almost impossible for a true Central Bank. Any advance or discount made by a Central Bank nearly always increases the other banks' balances with itself and provides them with an enlarged capacity for making advances. Let us suppose, for instance, that the Central Bank makes an advance of £1,000,000, and that of this million £900,000 is paid to the credit of the accounts of customers of the commercial banks; a small amount might be withdrawn in cash, but in a general way the commercial banks' balances with the Central Bank would be increased by £900,000 and with this basis these banks could make new advances up to £7,000,000 or £8,000,000, and still retain their usual reserve against their liabilities which would, of course, be increased in the same measure.

Such considerations make a Central Bank very careful how it uses its strength. To rush into competition with the other banks

with the idea of thereby gaining control of the situation would be very unwise. Whatever control might be gained in this way during a season of prosperity would assuredly be lost during a season of adversity, and that is just the time when control is most wanted. When the other banks have got to the point when they can lend no more, is the time when the Central Bank should appear on the scene as the saviour of the situation, but it could never do this if it had itself been jostling shoulder to shoulder with the other banks in an eager competition for business.

If my arguments are valid, it follows that *the correct line of action to be followed by Central Banks in countries like South Africa, possessing neither organised bill markets nor money markets, is to do all they can to cultivate the growth of such institutions, and meanwhile to find some working substitute for them. If the powers of the Reserve Bank were somewhat enlarged, without overstepping the limits of a Central Bank's proper sphere, it should be quite possible for the Bank itself to form an outside market for certain lines of business without involving the creation of the relations of banker and customer, so that it could still have freedom to abstain from business, or do business, without offence either to its temporary client or to the commercial banks.* (Italics are by the authors.)

Whatever amendments are made to the Currency and Banking Act in the future, there are three fundamental restrictions to Central Bank activities which I hope will never be abolished, *viz.*, the Central Bank should not be allowed:

(1) to give interest on deposits;
(2) to make loans on fixed property;
(3) to make unsecured loans in any form.

On the other hand, apart from these restrictions, which are so severe that real competition with commercial banks is entirely precluded, I think that most Central Banks could carry out their duties more efficiently if they were not prohibited from carrying out any other ordinary well-secured banking transaction of short currency.—*Economic Journal*, 1929, Vol. XXXIX, pp. 533-35.

The following were the main provisions of the Reserve Bank of South Africa Act, which if anything went farther than the Reserve Bank of India in its control of commercial banking:

(*i*) The other banks in the course of a year or two were to cease issuing notes and the Reserve Bank was to be the sole bank-note issuer for the Union for a period of twenty-five years.

(*ii*) The other banks were to keep 10 per cent. of their demand liabilities and 3 per cent. of their time liabilities on balance with the Reserve Bank. (In the original Act this 10 per cent. was in two years' time to be increased to 13 per cent. but this arrangement was nullified by the Amendment Act of 1923.)

(*iii*) The other banks had to subscribe upto 50 per cent. of the Reserve Bank's capital of £1,000,000 in proportion to their size as measured by the amount of their paid-up capital and reserve funds.

(*iv*) The Board of the Bank was to consist of eleven members, *viz.*, the Governor and Deputy Governor, both to be appointed by the Governor-General of the Union, three other members to be appointed by the Governor-General, three members to be appointed by the commercial banks, and three by the stockholders.

(*v*) The conditions under which notes may be issued conform to the American rather than the English model. Notes have to be covered by not less than 40 per cent. of gold, and the remainder by trade bills. In England, of course, the system is that a certain amount—called the fiduciary issues—may be covered by securities, and everything above that has to be covered by gold The English system has been criticised as not allowing room for sufficient expansion. Whereas in South Africa or the United States the Central Bank can issue £100 in notes for every £40 of gold in its possession, in England the Central Bank can issue only £100 in notes for every £100 of gold. As against this, it has to be remembered that in the reverse process of contraction the English system has the advantage in that for every £100 of gold withdrawn it has only to withdraw £100 of notes, whereas in South Africa, or the United States, the Central Banks have to withdraw £250 of notes for every £100 of gold withdrawn. The fact of the matter appears to be that *for countries which produce large amounts of raw material, such as South Africa and America, and which consequently are liable to require a large increase of currency in the harvesting season, a quickly expanding system is the better,* whilst for a country like England, which lays itself open to large and sudden demands for gold, a less elastic system is the better. (Italics are by the authors.)

(*vi*) Under the Act the powers of the Bank are very carefully defined, both as to what it may do and as to what it may not do.—*The Economic Journal,* 1929, Vol. XXXIX, pp. 522-23.

De Kock says no doubt that·

If, owing to peculiar local conditions, the central bank of any country cannot possibly attain its maximum efficiency by operating as an orthodox central bank on the lines of the older central banks of Europe and the Federal Reserve Banks of the United States, then the powers, functions and operations of that central bank should be adapted as far as possible to the economic and banking environment of the country concerned, and the economic and banking environment in turn should be rendered as favourable as possible to the proper functioning of the central bank.—*The Economic Journal,* 1931, Vol. XLI, p. 73.

But the arrangements with regard to the Reserve Bank of India should be more suggestive to us as there could be little local peculiarities as between British India and Hyderabad.

Conditions in South Africa were very similar to those in India at the time the Reserve Bank of South Africa was started, and that Reserve Bank was severely precluded from competing with primary banks (which were very few in number) and there was a move against this:

I have already pointed out that the South African Reserve Bank was not allowed to do any of the ordinary business of a bank except to discount short trade bills. Doubtless it was a wise precaution to restrict the powers of the Bank at the beginning until it could learn its way in novel surroundings. But, as in South African commerce trade bills play a minor part, the restrictions were rather severe. The internal trade of South Africa is carried on for the most part by a system of open accounts as between wholesalers and retailers, and of overdrafts as between banks and their clients. There are a good many promissory notes floating about, many of them, of course, representing debts incurred for the carrying out of trade transactions, but many of them, on the other hand, being accommodation paper of some sort; but regular genuine trade bills are not very numerous. Some of the big wholesale houses have them, but they do not largely discount them. It follows that as trade bills are not in common use in South Africa, there is no bill market. It is perhaps not quite sufficiently appreciated in the big financial centres that South Africa has no money market and no bill market. Discount brokers, bill brokers, underwriters, *et id genus omne*, are not among the fauna of this country.

I do not know enough of conditions in other countries where new Central Banks have been started, to be able to say whether their problems have been the same as ours in South Africa. But in every country where there is no money market, and where either the Government or the other banks are not more or less continually in debt to it, the same problem must present itself, *viz.*, how without direct competition with the other banks a Central Bank can exercise a proper control over credit conditions.—*The Economic Journal*, 1929, Vol. XXXIX, pp. 527-28.

It is true that amendments to the South African Reserve Bank Act did give wider powers to that Bank in certain matters like discounting bills with longer maturity, making loans and advances to individuals against Government securities and against one-name bills supported by titles to movable property and against other reliable securities. But the Reserve Bank of South Africa is still

to operate first as a bankers' bank and then to do only such other banking business in South Africa as is offered to it entirely on the initiative of merchants and others. In any case, the fact that the South African Reserve Bank, like most other central banks, is prohibited by law from paying interest on any deposits held by it will prevent it from competing with the commercial banks to the extent that they can among themselves.

And from South Africa to Hyderabad it is a far-fetched analogy.

For recent developments in the South African Reserve Bank, see the concerned Table in Appendix C.

THE COMMONWEALTH BANK OF AUSTRALIA

This bank was started in 1911 for the purpose of carrying on the ordinary functions of banking as a State institution. (There is a good deal of resemblance between its then condition and the present constitution of the Hyderabad State Bank.) The note issue inaugurated in 1910 was in the hands of the Treasury and was handed over to a Note Issue Board in 1920. The Note Board was not associated with the bank. Although there was legal provision for issue of notes against trade bills of not more than 120 days' maturity, little advantage was taken of this provision. The exchange situation in 1923 and 1924 gave rise to a demand for a change in banking and monetary policy. In the course of 12 years the bank had expanded its business and had made a profit of about £4.5 million. This profit was mainly attributable to

(*a*) War finance during the world war,

(*b*) Government (Federal and States) business done by the bank, and

(*c*) savings bank business

It is understood that the policy of the management upto 1924 was not to enter into active rivalry with the trading banks.—*The Economic Journal*, March 1925, p. 146.

By reason of this policy, the conversion of the bank into the central bank of the country was rendered easier. The absence of a central banking authority proved a source of weakness to the financial situation and five amendments were made to the Commonwealth Bank Act in 1924 which may be summarised thus:

(*i*) The appointment of a Board of Directors representing special commercial and industrial interests to control the Bank. (Hitherto control had been exercised by a Governor appointed by the Government, but acting on his own authority. The late Sir Dennison Miller was the only Governor to act under this arrangement.)

(*ii*) The abolition of the Notes Board and the control of the note issue by the Bank.

(*iii*) The strengthening of the Bank by the provision of further capital.

(*iv*) The granting of power to the Bank Board to fix and publish discount rates.

(v) The provision that the private banks should settle their exchanges through the Commonwealth Bank.—*The Economic Journal*, March 1925, pp. 146-47.

The first declaration of policy by the new Board was a reversal of the deflationist attitude of the old Notes Board. As a result of negotiations between private banks and the Commonwealth Bank, additional currency began to be provided to finance the exports of the summer and autumn.

In course of time, the need was felt for further strengthening the Commonwealth Bank as a central bank, and a Royal Commission or Monetary and Banking systems in Australia was appointed in 1935,

> to inquire into the monetary and banking systems at present in operation in Australia, and to report whether any, and if so what, alterations are desirable in the interests of the people of Australia as a whole, and the manner in which any such alterations should be effected

The Commonwealth Bank asked the Commission for two important changes in banking practice:

(1) That the trading banks should be required to hold fixed minimum deposits with it, and
(2) That it should have the right to call upon the overseas funds of the Australian banking system.—*The Economic Journal*, Vol. XLVII, p. 691.

The Commission stressed throughout its report the desirability of co-operation between the trading banks and the Commonwealth Bank Clearly the most satisfactory arrangement is a system under which the leadership of the central bank is recognised in a set of conventions through which the banks implement the banking policy desired from time to time by the central bank. It will take a long time for this voluntary co-operation to reach the required standard of efficiency. The Commission seems to have taken the view that this co-operation could be hastened if the central bank had latent powers of compulsion. Consequently, it recommended legislation empowering the Bank Board, with the consent of the Treasurer, to require the trading banks to hold for a period of six months deposits with the Commonwealth Bank of not less than a stated percentage of the total deposits of the trading banks. The Board would be empowered to vary the percentage, and, with the consent of the Treasurer, to extend the period for a further twelve months. In any period of two years this power was not to be exercised for more than eighteen months.—*The Economic Journal*, Vol. XLVII, p. 694.

The Commission took a realistic view of the function of a central bank, recognising that the Bank must have adequate powers, but should only exercise these powers when other methods failed. Normally the Bank would act after consultation with the trading banks and with their full concurrence. Without the co-operation of the trading banks, and of other financial institutions, the central bank would have very limited powers to discharge its main function of

attempting to promote economic stability. The obligation to secure this co-operation is not less on the trading banks than on the central bank, and *the Commission leaves one in no doubt that it regards the trading banks as essentially public utilities*. On the other hand, it is emphatic that the technique of central banking is a highly specialised and responsible function, necessitating on the part of the directors and the senior officers judgment and understanding of a high order. The Commonwealth Bank is still learning the technique of central banking, and it is perhaps fortunate in the past ten years in the prestige it has acquired for pursuing an enlightened policy not always of its own making.—*The Economic Journal*, Vol. XLVII, p. 696.

Recent developments in the Commonwealth Bank are shown in the concerned Table in Appendix C.

Thus the lessons in South Africa and Australia should not be overlooked while laying the foundations of the Central Bank in Hyderabad.

Kisch and Elkin explain the necessity for a Central Bank to be a non-competing institution thus:

As the dealings of the Central Bank will be largely with the commercial banks, it is desirable to provide that the latter should not obtain control of central banking policy. The relations of the commercial banks with trade and industry may on occasion colour their view as to what the policy of the Central Bank should be. Clearly a policy that should be directed by national consideration ought to be subordinated to the interests of the principal customers of the Central Bank.

Other work also of the following types does come within the province of a central bank (whether any or all of it is looked to by the central bank or by the Government of the country, is a matter of urgency—as of war, or local convenience), although non-recurring in character:—

(*a*) liquidation of frozen assets of commercial banks; and
(*b*) maintenance of a fund for the support of government bonds.

Biggest Defect

Perhaps the biggest defect of the Hyderabad State Bank Act lies here. There is no provision

(1) for arming the Bank with powers for adequately guarding the interests of the general banking system*, † (individual as well as joint-stock);

* We suggest that the term "bank or banker" should be interpreted as meaning every person, firm or company, using in its description or title "bank" or "banker" or "banking", and every company accepting deposits of money subject to withdrawal by cheque, draft, or order.—*Hilton-Young Commission Report*, pp. 64-5.

† The indigenous banker as already mentioned by us is responsible for financing most of the inland trade and industries and also takes indirectly

The following description of the Federal Reserve System details the kinds of work to be done in this respect in order to satisfy the ideals set forth in the preamble of the Hyderabad Act:

The changes making for greater integration with the Federal Reserve System itself are chiefly those which increase the strength of control by the Board of Governors of the Federal Reserve System. This control is fortified by the power of the Board to alter reserve requirements, to regulate the payment of interest on time and savings deposits, to exercise supervision over credit for speculative purposes, and to establish regulations governing the standards for rediscounts and loans by federal reserve banks to members, to set the rediscount rates of the banks, and to control through the Open Market Committee all open market operations and impose the decisions upon the federal reserve banks. The control is further fortified by a power granted in 1933 to order the removal of any director or officer of a member bank, after warning, if he continues to violate any banking law or continues 'unsafe or unsound practices'. The control of the several federal reserve banks is enhanced by the Act of 1935; for, the really important functions of the federal reserve agent are now consolidated with those of the operating officer of the bank, now called 'president' instead of 'governor' as heretofore. This president is appointed by the Board of Directors of the bank, with the approval of the Board of Governors of the Federal Reserve System, for a term of five years. This right of approval, it is expected, will give the Board of Governors assurance of co-operation in central policy. —*Economics* by Fairchild, Furniss and Buck, pp. 85-6.

For recent developments in other Central Banks, see the relevant Tables in Appendix C.

(2) Nor for early cutting out the profit motive* from the minds of the shareholders and the Board of Directors so that if and when powers are entrusted, the Bank may be able to undertake this work with no prepossessions.

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a considerable part in supplying agricultural credit. Unfortunately, from the view-point of bringing him within a co-operated system, his instincts are towards a highly personal regulation of his own business, and as he generally depends for such funds as he is unable to furnish from his own resources, or those of his family or caste relations, on the credit which he is able to obtain from the joint-stock banks without having to submit to any formal restrictions, there is little inducement for him to submit to restrictions without a clear indication of corresponding advantages.—*Reserve Bank of India Statutory Report*, p. 42.

* *Distribution of Profits.*—In the case of State-owned central banks the balance of the profits, after providing for allocations to reserve funds or for other purposes, is to be paid to the State. It was provided, for example, that the Riksbank of Sweden was to place 10 per cent. of its net profit to the reserve fund until it amounted to 20,000,000 kronor, and the Bank of Latvia 25 per cent. to capital until it reached 25,000,000 lats and 10 per cent. to the reserve fund, while the National Bank of Bulgaria could set aside 25 per cent. of its profit for the reserve fund until it amounted to the original capital, and 5 per cent. for the pension fund. The Bank of Finland was allowed to allocate at least one-half of its profit to capital and reserve until they reached 3,000,000,000 marks, and thereafter one-third to the reserve fund. The Commonwealth Bank of Australia, after distributing one-half of its profit

It may be remembered that this was *the* reason why the Hilton-Young Commission did not agree to making the Imperial Bank of India the Reserve Bank of India. The Imperial Bank was there in full growth, after having tasted the sweets of Government cash for about 75 years, and the Commission should have been freed from numerous worries if only that Bank were used and converted into the Reserve Bank. But, by constitution the Imperial Bank of India was a profit-making institution, and having been that for over five years (75 years if we go back to the Presidency Banks), the Commission found it impossible to change it over into a public utility concern. The Imperial Bank nowadays distributes an enviable 12 per cent. (sometime ago it was an objectionable 16 per cent.) while the Reserve Bank of India dividend is only 3½ per cent. although the Reserve Fund is equal to the paid-up share capital on account of a

between the reserve fund and the Mortgage Bank Department Capital Account, has to pay the remaining half into the national-debt sinking fund.

With regard to the other groups of central banks, provision has been made for the State sharing in the profits of the central bank, whether it owns a part of the capital of the latter or not at all; but whereas in the case of the Bank of England the State has claimed only the profits of the note issue, *i.e.*, of the Issue Department as distinct from the Banking Department, the State shares in the general profits of the other central banks. Where the State owns a part of the capital of the central bank, it is entitled to a portion of the profits of the central bank in accordance with a scale or procedure laid down by statute, in addition to receiving dividends in respect of its shareholding on the same basis as other shareholders.

Two principal methods have been devised for providing a share to the State in the general profits of the central bank. The one method is that of providing for a dividend to shareholders, varying from 3½ per cent. In the case of the Netherlands Bank to 6 per cent (8 per cent. for the Bank of Greece and 10 per cent for the Bank of Spain) in the case of the Federal Reserve Banks of the United States, the National Banks of Belgium and Czechoslovakia, the Bank of Norway, and the South African Reserve Bank, as a first charge on the net profits, and thereafter a division of profits between the reserve fund, the State and the shareholders or just between the reserve fund and the State as with the Federal Reserve Banks and the Bank of Canada. The distribution of the profits of the Netherlands Bank, for example, was to proceed on the following lines: an amount equal to 3½ per cent. of the capital was to be set aside for dividends to shareholders; of the remaining profit 10 per cent. was to be allocated to the reserve fund until it amounted to one-quarter of the capital, and 3 to 3½ per cent. as bonus to the Management, Directors and Advisory Committee; of the balance the shareholders were to receive one-quarter and the State three-quarters until the dividend amounted to 7 per cent.; and of the remainder the shareholders were to receive one-eighth and the State seven-eighths. In the case of the South African Reserve Bank provision was made for a cumulative dividend of 6 per cent. as a first charge on the profits, while the surplus was to be allocated to the reserve fund until it amounted to one-quarter of the capital; thereafter and until the reserve fund equalled the capital one-half of the surplus was to be allocated to the reserve fund, one-quarter to the State and one-quarter to shareholders upto a total maximum dividend of 10 per cent., and any balance remaining was to be paid to the State; when the reserve fund equalled the capital, the whole of the profit after payment of a dividend of 10 per cent. was to go to the State. The Federal Reserve Banks were to pay a cumulative dividend of 6 per cent. which was also the maximum, while the balance of the profit was to be allocated to the surplus fund until it amounted to the subscribed capital; thereafter 10 per cent of the excess profit was to be paid into the surplus fund and the remainder to the State. The second method was that of providing

gift by Government. For developments in the Reserve Bank of India, see the concerned Table in Appendix C. The Hyderabad Act guarantees a minimum dividend of three per cent., allows upto 6 per cent., for the time being, but the door is open for a larger dividend after the Reserve Fund becomes equal to the paid-up share capital. The arrangement made in the Reserve Bank of India Act, *even now,* must be the best foundational precedent for the future stability and serviceability of the Hyderabad State Bank as the bankers' bank.

And then, about its work as a bankers' bank. There is absolutely no reference to this function of the Bank in the Act except in the preamble. Some provision is made for purchasing other banks, and

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for the payment of 5 to 20 per cent of the net profits to the reserve fund as a first charge on the profits, and a dividend of 5 to 12 per cent. to shareholders as a second charge, the remainder to be divided between the State and the shareholders, as in the case of the central banks of Argentina, Chile, Colombia, Estonia, Germany, Hungary, Lithuania, Poland, Portugal, Roumania, Switzerland and Yugoslavia The Central Bank of Chile, for example, was set aside 20 per cent. of its total net profit for the surplus fund until it amounted to half the paid-up capital, and then 10 per cent of its profit until the surplus fund equalled the paid-up capital, after which the approval of the President of the Republic was required for any further allocations to the surplus fund; 5 per cent. of the profit was to be allocated to the employees' benefit fund; out of the remaining profit a cumulative dividend of upto 8 per cent was to be paid, of the balance one-half was to be allocated to dividends or the dividend-equalisation fund and one-half to the State until the dividend reached 12 per cent ; and of any remaining balance three-quarters were to be paid to the State and one-quarter to dividends, the dividend-equalisation fund or the surplus fund according to the decision of the Board of Directors. The Reichbank of Germany was first to place 10 per cent. of its profits to reserve until it equalled the paid-up capital, and then a cumulative dividend of 8 per cent. to shareholders; and of any remaining profit it was to pay, in accordance with sliding scale, from 75 to 95 per cent. to the State and from 25 to 5 per cent. to the shareholders in the form of additional dividends or contributions to a dividend-equalisation fund. The Bank of Portugal was to allocate 5 per cent. of its profits to the reserve fund until it amounted to half the capital, 5 per cent. to a special reserve fund, 2 per cent. to the staff pension fund, and then a dividend of 6 per cent ; and of the balance 90 per cent. was to go to the State and the remaining 10 per cent. to be divided between the shareholders up to a total dividend of 7 per cent.; the State and the Bank. In general, it may be said that the State has claimed a share in the profits of central banks because the latter have been granted a monopoly of the note issue, which usually constitutes a valuable privilege, not only for purposes of control, but also as a course of profit. The State's share was also intended in many cases to operate as a means of restraining the incentive to make large profits, and for this purpose statutory limits were likewise imposed in many instances on dividends to shareholders and on allocations to reserve funds.

The payments due to the State do not always go into the general revenue of the Treasury, but have sometimes to be applied towards reducing the State's indebtedness to the central bank, as in Yugoslavia, or supplementing the gold reserve against Government notes or reducing the outstanding bonded debt of the Government, as in the United States, or to be paid into the national-debt sinking fund, as in Australia.

In conclusion, it should be noted that, in the case of central banks established since 1933, there has been a strong trend towards lower levels of maximum dividends payable to shareholders, as compared with banks of similar types established prior to that time. The Bank of Canada was limited to a maximum dividend of 4½ per cent., the Central Bank of Argentina and the Reserve Bank of New Zealand (prior to its conversion into a State Bank) to 5 per cent., and the Reserve Bank of India to 5 per cent.—*Central Banking,* De Kock, pp. 302-05.

for advancing funds to banks about to be liquidated, but this work is open to any ordinary commercial bank as well. If the preamble of the Act should be seriously kept in view, the Hyderabad State Bank does require special powers in all the six matters enumerated *supra,* and these very powers, to be exercised loyally, should preclude the work of the Hyderabad State Bank as an ordinary commercial bank (for which kind of functioning there *is* detailed provision in the Act). The Bank is taking deposits on interest from individuals, and is advancing money to individuals. It is also doing small-scale exchange work. In a recent speech, the Hon'ble Mr. Ghulam Mohammed, Finance Member, said:

Apart from its being a Bank of the Government and a custodian of our paper currency reserves, the State Bank is designed to be the main commercial and industrial bank of Hyderabad.

Why the Bank is meant to be only the custodian of the paper currency reserves while the Act expressly says that the management of the paper currency should be in the hands of the Bank, why it is described as *a* bank of the Government while the Act clearly says that the Bank shall be *the sole Banker* of the Government, why the Bank is being designed to be the main commercial and industrial bank of Hyderabad while the preamble of the Act proposed to entrust it with the regulation of the circulation of the currency, maintenance of its stability and security, facilitating the payment of money in the Dominions and abroad, provision of credit necessary for the economic life of the country and encouragement of the growth of agriculture, commerce and industry, is *apparently* not clear, but all this definitely means that the Act is being implemented *gradually*. It has been argued that there are no primary joint-stock banks in the State, and thus the question of making provision for maintenance of reserve ratios, etc., does not arise at all. It is not true that even at present there are no joint-stock banks in Hyderabad State: there are, but of course small in number. For instance, it is most appropriate that the Co-operative Dominion Bank, Hyderabad, should become a member bank of the Hyderabad State Bank. Even according to the rates prevalent in the Reserve Bank of India, the membership of that single institution should, even at the 1940 deposit level, bring Rs. 0·72 lakh reserve deposit to the Hyderabad State Bank.* Secondly, the legislation

* The Hyderabad State Mercantile Bank with a capital of one crore of rupees (10 million) is about to be registered. A *Communique* issued by Information Bureau, Hyderabad-Deccan, under date May 5, 1943, says:—

The recent flotation of a number of banking companies in British India, followed by similar applications for registration of new banks under the Hyderabad Companies Act, 1320 F., has made it necessary for Government to provide a special measure to safeguard the interest of the public by means of a Regulation. The Regulation which comes into force from 29th Khurdad

should include individual money-lenders as well. Banks incorporated outside Hyderabad should be roped in—just as similar banks have been in British India, within the orbit of the Reserve Bank of India. Lastly, these very provisions should stimulate the growth of primary joint-stock banks in large numbers in the State, and the consequent institutionalising of credit should powerfully aid industry, agriculture and trade. *If Government do not intend the Hyderabad State Bank to do this work, then somebody else will have to do it—if we wish to build with checks and balances.*

As the Act stands, on account of the special facilities given, the Hyderabad State Bank must in course of time become "*the one big bank*" in the whole of Hyderabad State; private or other joint-stock banks can never compete with this Bank in ordinary business. If the idea is to nationalise" banking in the State through this Bank, policy requires that this object should be plainly stated in the body of the Act. It is only fair that institutions working in the field now must know what is to come, in plain language.

Even if the Hyderabad State Bank were intended to be the one nationalised bank with branches, *even then*, provision would be required in the Rules for regulation of the Bank's activities in the six matters mentioned. But, there is no mention at all of any arrangement or even a proposal for framing rules under the Act: there is provision only for "agreement"—between Government and Bank.

1352 F. is comprised of provisions relating to Banking Companies which closely follow the lines of the Indian Companies (Amendment) Act, 1936. It also makes it obligatory for every new Banking Company to obtain the sanction of His Exalted Highness's Government in the Finance Department before (1) such a company is registered in His Exalted Highness's Dominions under the Hyderabad Companies Act, 1320 F., or, (2) a branch of a bank registered in British India is opened in His Exalted Highness's Dominions.

Government is keen to ensure that banking habit spreads as rapidly as possible in the Dominions, but is doubtful whether, in the existing conditions, the mere organisation of new banks with large paid-up capital, would without necessary safeguards, provide suitable avenues for profitable employment of funds. Government, therefore, feels that more than ordinary caution is called for in the organisation of new banks at this juncture, specially in view of the conditions in the money market, difficulties in obtaining services of right type of experienced and trained officers (specially Mulkis) for successful management of such institutions and in meeting the conditions that are likely to arise during the post-war period.

Government has, therefore, decided to scrutinise the capital structure and the system of management of the new banks, before permission is granted to register such banks in Hyderabad, or a bank registered in British India is allowed to open a branch in Hyderabad. This step has been taken with a view to minimise the temptation towards an over-ambitious policy and to encourage cautious and steady banking, on well tried orthodox lines under the management of experienced officers. The Hyderabad State Bank will be prepared as a part of its policy to guide and assist the new banking institutions in their earlier career, so that a sound system of banking is built up in the State and danger and pitfalls which have been experienced elsewhere and in Hyderabad are avoided.

CHAPTER VIII

COMMERCIAL FINANCE

(Continued)

STATUTORY CASH BALANCES AND DEPOSIT INSURANCE

"To abolish risk entirely in one large segment of the financial system."

THE trend towards the statutory centralisation of cash reserves is based on the following facts:

(*a*) that when bank reserves are pooled in one unit instead of being spread over many units and their use is safeguarded by reasonable and elastic restrictions, such reserves may be put to work to the fullest extent possible during periods of seasonal strain, and in emergencies in the interests of banking and business as a whole;

(*b*) that, in conjunction with the rediscount facilities afforded by the central bank, the centralisation of cash reserves not only promotes economy in their use generally, but also serves to increase the liquidity of the banks;

(*c*) that statutory centralisation at least guarantees to the banking system a minimum of the above-mentioned advantages; and

(*d*) that statutory centralisation assures the central bank of a minimum of funds with which it can operate, and not only strengthens its financial position but also gives it at least some means of control over the banking and credit situation.—*Central Banking* by M. H. De Kock, pp. 337-38.

By Statute the Reserve Bank of India keeps a cash reserve of 5 per cent. and 2 per cent. respectively of the demand and time

Reserve Requirements of Member Banks (percentages of deposits)

	On demand deposits			On time deposits
	Central Reserve City Banks	Reserve Banks	Country Banks	All Member Banks
Statutory requirements in 1917 (according to Federal Reserve Act) ..	13	10	9	9
Requirements as changed by Board of Governors.				
Aug. 16, 1936 to Feb 28, 1937 ..	19½	15	10	4½
March 1, 1937 to April 30, 1937 .	22¾	17½	12¼	5¼
May 1, 1937 to April 15, 1938 ..	26	20	14	6
April 16, 1938 onwards	22¾	17½	12	5

For a further change in reserve ratios, see the Note below the Table on the Federal Reserve Banks in Appendix C.

deposits of the scheduled banks subject to a penalty. Defaulting banks will be prohibited by the Reserve Bank of India from accepting any more deposits. The adjustment of the reserve ratio in the U.S.A. is shown in the above statement.

DEPOSIT INSURANCE

Details with regard to deposit insurance in the U.S.A. are these:

On December 1, 1937, total deposits of commercial banks in the U.S.A. amounted to about 47,000 million dollars. The Federal Deposit Insurance Corporation does deposit insurance work. There are 5,200 banks (assets—about 30,000 million dols.) chartered by the Federal Government and automatically affiliated to (*a*) the Federal Reserve Banking system and (*b*) the Federal Deposit Insurance Corporation; 1,081 banks (assets—about 16,700 million dollars) chartered by State Governments and affiliated both to the F.R.B. system and the F.D.I.C.; 7,454 banks (assets—about 7,400 million dollars) chartered by State Governments, not affiliated to the F.R.B. system but affiliated to the F.D.I.C.; and, 1,085 banks (assets—about 1,800 million dollars) chartered by State Governments and not affiliated either to the F.R.B. system or the F.D.I.C.

The object of the F.D I.C. is to "attempt to abolish risk entirely in one large segment of the financial system". Every depositor is covered only up to 5,000 dollars, and thus the real risk borne by the F.D.I.C. is 20,000 million dollars out of a total of 47,000 million dollars, and thus 43 per cent. of the deposits of insured banks are insured. Even a hundred per cent. coverage is held not to increase the cost very much. The annual premium is one-twelfth of one per cent. per annum. The average income of the F.D.I.C. is, per annum, 86 million dollars from banks in the shape of premia, and 34 million dollars from the Treasury as a grant, totalling 120 million dollars. The average annual expenditure has been 12 million working expenses and 13 million estimated losses, totalling 25 million dollars. The present assets of the F.D.I.C. amount to 383 million out of which 369 million dollars are invested in Government securities. It has been estimated that if all losses on account of Bank failures since 1865 had been met by the State, the total cost to Government would have been about 2,000 million dollars involving an annual interest charge of about 20 million dollars which is quite negligible. With the new powers of the Federal Reserve Banks to lend in ruffled circumstances, and insurance by the F.D.I.C. chances of bank failures have been very much reduced in the U.S.A.

There is no mention in the Hyderabad State Bank Act either of reserve ratios or of deposit insurance.

CHAPTER IX

COMMERCIAL FINANCE
(Continued)

BANK RATE AND OPEN MARKET OPERATIONS

"Perhaps a complex offer by the central bank to buy and sell at stated prices gilt-edged bonds of all maturities, in place of the single bank rate for short-term bills, is the most important practical improvement which can be made in the technique of monetary management."—LORD KEYNES: *General Theory*, p. 206.

THE "BANK RATE"

WHAT about the 'bank rate'? The Act defines it as the rate of interest charged by the Bank on advances made against the security of Hyderabad Government securities. Usually the 'bank rate' means the rate of discount (rather the rate of rediscount) made by the central bank.

In theory, if not in actual practice, as far as our own money market goes, the bank rate is the minimum rate charged by the Bank of England for discounting approved bills of exchange with not more than fifteen days to run before maturity (*i.e.*, the date at which the bills fall due to be paid by those who have accepted them), it is also said to be the rate at which the Bank of England will make advances on marketable securities for short periods, usually a week. That, however, is not strictly true, for the Bank makes a charge of half a per cent. over bank rate for loans to the market.—*The London Money Market*, by W. F. Spalding, p. 91.

The bank rate in India is not effective in a different sense than in England. In England, the bank rate becomes effective when "the market is in the bank" as a result of the Bank of England making its official rate effective. But in India, the bank rate is not effective because there is no bill market; there is the high profits tradition and indigenous money-lenders have not linked themselves to the Reserve Bank of India.*

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* The following extract from *Indian Finance* dated February 7, 1942, stresses the ineffectiveness of the bank rate in India and pleads for a reduction with a view to making it effective as a standard for other money rates:—

The Reserve Bank presumably has a superstition about 3 per cent. bank rate. Otherwise, the bank authorities would have changed the rate long ere this. The Bank of England rate is 2 per cent. And this rate obtains at a centre which is the scene of a hundred air raids and whose monetary machine has to work under numberless restrictions and inconveniences. A bank rate has a definite meaning and purpose. It is the

It has been contended that there is no bill market in Hyderabad and therefore there is no need for including any provisions in the Act in the matter of rediscounting, etc. Central banking legislation cannot be resorted to every year, and as has been pointed out already, the clauses must provide for long-range plans. The present contention is analogous to neglecting the vocal organs of a baby as the child for the moment cannot speak.

Why is there no bill market in Hyderabad? The reasons are just the same as in British India. Funds are required only seasonally on account of our crops and consequent business activity falling within the course of about five months, and thus a bill market would be seasonal—somewhat like sugar factories. Secondly, the present trade bills in India are so various in form, terms and other items that standardisation should be the very first reform needed. Thirdly, the commercial banks are mostly used to finance themselves by getting advances on the security of Treasury bills, thus reducing the need for discounting and rediscounting. *Figures relating to the operations* of the scheduled banks are given in Appendix C, showing the very little discount work being done by these banks

But the facilities following a popularisation of trade bills do not require any elaboration [4] The business life of the country is smoothened considerably. The bill market will also serve as a very good field for investment of short-term funds by the investing public

standard for other money rates. At 3 per cent. the Reserve Bank in India ceased to be a standard long ago. In other words, persistence in the 3 per cent. rate would be to deprive the bank rate of its meaning and purpose. See the Table on Indian money rates in Appendix C.

[4] The following extract from the prospectus of the recently started Indian Discount Bank stresses the importance of building up a bill market in India:

"The objects for which the Company is established are those mentioned in Section 277 of the Indian Companies Act VII of 1913, and are set out in the attached Memorandum of Association.

"The development of the discount market is an essential feature of any scheme of improvement of our monetary system. Some of the indigenous bankers and their wealthy depositors might also form themselves into discounting houses under the aegis of the Reserve Bank. The Reserve Bank could also foster the growth of such discount houses by classing them with member-banks in the matter of rediscount facilities.

This was the view expressed by the Indian Central Banking Enquiry Committee in 1931. And although over ten years have elapsed since then, the Indian Banking system continues to remain conspicuous by the absence of a discount house run on modern and approved banking lines. On the other hand, the banking trends during the last five years have clearly shown that there has been considerable progress in the sphere of joint-stock banking in India; the number of scheduled banks has increased by 26 while their deposits have risen from Rs. 200 crores to Rs. 450 crores. As most of the development of banking has taken place in the larger towns there has naturally been very keen competition in the banking business in these towns with the result that it has become increasingly difficult for new banks to carry on their business successfully as in most cases, the smaller and newer concerns, even though scheduled, have either to offer comparatively higher rates of interest on deposits and, therefore, charge higher rates

including banks. There will be more of investment out of savings, and the velocity of circulation of money and credit will increase. It is quite true that we are just at the threshold of these improvements, the accompanying table shows the very small beginnings we have yet made in joint-stock banking, but a definite programme of expansion is for that very reason more urgently called for. Forms of bills should be made available free or at nominal cost at post offices (as recommended by the Hilton-Young Commission) and the duty on usance bills should be abolished. Also, the Hyderabad State Bank should try and give every encouragement for developing the use of this form of credit.

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on loans which necessarily have to be less sound, or resort to some other unsound methods by which to make their banking business paying.

This state of affairs is in the main due to the fact that Indian banking development is mainly confined to the beaten track of joint-stock commercial banking only, and that no one has so far devoted his energies to the development of other types of banking institutions such as discount houses, merchant banks, industrial banks, which play an equally if not more important part in such highly developed money markets as London and New York. It would, therefore, appear that a discount house established on modern banking lines and specialising in the discounting of bills of Multani Shroffs and other approved business parties and also carrying on usual joint-stock banking business as is done by the London Discount Houses, would not only have a bright future, but also have an assured place in the Indian money market.

Apart from the rediscounting of Multani and Cutchi Hundies, the discount house will also engage in a new type of finance hitherto not explored fully in this country—*viz.*, discounting of hundies arising out of hire purchase of instalment finance In the United States this type of consumer credit has become increasingly popular in recent years and in addition to the establishment of separate departments of banks to meet the needs for this kind of credit, special banks have also been established for this purpose. This is a new field which the discount house will explore to the fullest possible extent. Moreover, the discount house, by discouraging the overdraft system and granting credit by way of discount will encourage the development of the bill market in India Thus the Discount Bank will specialise in discounting in its various manifestations, the commercial credit, the industrial credit, the consumer credit and the import and export credit.

The Discount Bank of India, Ltd, will thus fill a vital gap in the present structure of the money market and impart unity and harmony to the banking system of the country. In a circular letter dated the 26th August 1937, addressed to the indigenous bankers, the Reserve Bank has already promised support such a discount house by re-discounting its paper, subject to the usual central banking principles. The Discount Bank is thus assured of the support of the highest banking authority in the country from its very start. The importance of a well organised discount market consisting of modern discount houses to the effective operation of the policies of the Central Bank of a country can hardly be over-emphasized and in countries such as England, the Discount Market in fact forms the channel through which the Central Bank seeks to make its policies effective. The Discount Bank, a pioneer of its type in this country, can, therefore, look forward to the closest co-operation and the goodwill of the Reserve Bank of India, the commercial banks and the general public from its inception, by reason of the services which it will offer to the banks and the business world; all the more so because, unlike other banks which follow the beaten track of commercial banking, the Discount Bank will concentrate on a newer type of banking which has hitherto been unexplored in this country.

Table Showing Joint-Stock Banks Incorporated in Hyderabad State

Name of Bank	Headquarters		Capital		
			Authorised Rs.	Subscribed Rs.	Paid up Rs.
Saraswati Banking Co., Ltd	Gulbarga	O.S.	1,00,000	1,00,000	1,00,000
Nizamia Bank, Ltd. ..	Raichur	B.G.	5,00,000	46,200	44,200
The Deccan Karnatik Bank, Ltd.	Raichur	B.G.	30,000	15,300	12,980
The Gulbarga Banking Co., Ltd.	Gulbarga	O.S.	1,00,000	1,00,000	84,992
Sri Ram Banking Co., Ltd. ..	Bhhom	O.S.	20,000	3,420	3,365
Sri Mahalakshmi Deccan Bank, Ltd.	Raichur	O.S.	50,000	35,100	34,256
Osmania Aziz Bank, Ltd. .	Raichur	O.S.	1,00,000	1,00,000	13,862
The Navjivan Bank, Ltd. ..	Aurangabad	O.S.	20,000	20,000	1,050
Sri Sarada Banking Co., Ltd.	Raichur	O.S.	1,00,000	20,800	16,172
Raichur Deccan Bank, Ltd.	Raichur	O.S.	20,000	4,850	2,401
The Anand Bank, Ltd. ..	Osmanabad	O.S.	1,00,000	Nil	Nil
The Yadgir Bank, Ltd. ..	Yadgir	O.S.	1,00,000	17,320	13,290
Sri Pandurang Bank, Ltd. ..	Kandi	O.S.	2,00,000	19,500	6,601
The Deccan Banking Co., Ltd.	Hyderabad	O.S.	6,00,000	26,600	23,252
The Muslim Bank & Stores, Ltd.	Hyderabad	O.S.	5,00,000	1,56,790	65,885
Tijarathi Co., Ltd. ..	Hyderabad	O.S.	1,00,000	5,100	484
Sahookarah Ghareeban, Ltd.	Hyderabad	O.S.	2,00,000	995	300
Raichur Banking Co., Ltd.	Raichur	O.S.	1,00,000	11,800	9,380
The Deccan People's Bank, Ltd.	Karmad	O.S.	50,000	Nil	Nil
Sri Venkatesh Banking Co., Ltd.	Shorapur	O.S.	1,00,000	5,900	1,144
Hyderabad Bank, Ltd. ..	Hyderabad	O.S.	2,00,000	10,500	6,580
Sridhar Pandarinath & Co., Ltd.	Nagapur	B.G.	1,600	Nil	Nil

Note.—These particulars relate to the year 1940. During the past three years, several new banking joint-stock concerns have sprung up. But official statistics are lacking. Nor are figures available for indigenous money-lenders operating as individuals or partners.

Nor does the Act make any provision for making the bank rate effective by building up a bill market, by separating non-banking from banking work amongst primary bodies, by having power to define "eligible paper" in a broader and broader sense as general banking progresses in the State, and by moving for abolition of, or reduction in, the stamp duty on usance bills. The Indian bank rate is not effective to-day and in this respect the Reserve Bank of India has achieved but little. And the Hyderabad Act foreshadows no plan at all in this direction.

This is not all. The bankers' bank must make sure about resources, reserves, quality of business and credit of all banks in the country, as also maintain monetary liquidity, price stability, a cheap money market and in times of war bring about necessary readjustments in view of greater absorption of national income by Governmental expenditure.

The control of credit is envisaged in the following extracts from *Bills, Bullion and the London Money Market,* by W. K. Duke, pp. 112-25:

Unquestionably the outstanding features of the monetary system of to-day are the changes in and the additions to the technique of currency management brought about by the operations of the Exchange Equalisation Account. The semi-automatic regulation of the volume of credit of Gold Standard days has given way to a system of managed currency requiring the highest degree of technical skill and knowledge The internal economy may now be insulated from transitory disturbances due to causes such as speculation in currencies and the desire for security of capital........ .... The influx and efflux of funds arising from such causes may be, and are to a large extent, prevented from affecting the column of available credit....... To be in a position to effect the requisite systematic intervention the account needs to be equipped with a full knowledge of the destination or origin of the funds at a time of pronounced exchange fluctuations. Fortunately such information, which has not always been readily obtainable, is now available. According to the Macmillan Report this information is essential to the smooth working of the monetary machine. The Statistical Department of the Bank of England has, therefore, collected data, which have proved invaluable as an accessory to the operation of the Exchange Equalisation Account. Every month at least (and how more frequently is not made public) the Bank is able to determine the volume of money held in London on foreign account. By reason of its active intervention in the foreign exchange market, the Account is in a predominant position to ascertain the trend of the exchanges, and to analyse sudden demands for, or offers of sterling originating in all centres of the world. In the course of the past few years, great and important advances have been made in the technique of credit control. Internal credit conditions which were once so closely associated with the movements of gold and with variations of the

bank rate—can now be almost entirely insulated from disturbances of a transitory nature, since the authorities are in a position to initiate compensating action to restore the cash position of the banking system. Open market operations are conducted not only in securities but also in gold. When the Bank purchases gold in the Market, generally through the medium of the Account, Bankers' Deposits automatically increase, thus making possible an expansion of credit. Variation of the fiduciary issue has added a further element of elasticity. Should it become necessary, the Account's gold holding may be liquidated to the extent of a further £200 million without expanding the note issue.

A glance at the Appendices showing the recent features of central bank balance sheets, will show that the bank rate is now-a-days becoming more and more a formality, central bank policy achieving its end through other means like open market operations in gold and in securities Lord Keynes observes:

> The City of London gradually devised the most dangerous technique for the maintenance of equilibrium which can possibly be imagined, namely, the technique of bank rate coupled with a rigid parity of the foreign exchanges. For, this meant that the objective of maintaining a domestic rate of interest consistent with full employment was wholly ruled out. Since in practice it is impossible to neglect the balance of payments, a means of controlling it was evolved which, instead of protecting the domestic rate of interest, sacrificed it to the operation of blind forces. Recently, practical bankers in London have learnt much, and *one can almost hope that in Great Britain the technique of bank rate will never be used again to protect the foreign balance in conditions in which it is likely to cause unemployment at home.* (Italics are by the authors.)

> The large cash balance of the Federal Government fulfils not only the traditional purposes but also that of monetary manipulation directed towards lowering the cost of new government financing ...... Reserve banks may buy and sell securities for reasons bearing no relation to the marginal principle. Thus the marginal rate of return on securities may fall, through the manipulation of the Federal Reserve Banks, with the result that a discrepancy arises among the marginal rates of return on securities, cash, production and consumption for those individuals and organizations which try to maximize their returns, *i.e.*, follow the marginal principle ..... By influencing either the demand or supply of loanable funds the monetary authority can change the rate of interest at will. The other marginal rates of return then have to follow along as best they can.—*Q.J.E.*, May 1941, p. 498.

Open-Market Operations

The main objectives of open-market operations by the Bank of England since the last war may be summarised as follows:—

(1) to make bank rate effective or to prepare the ground for a change in bank rate;

(2) to avoid disturbances in the money market as a result of movements of Government funds or seasonal movements generally;
(3) to offset the inflow and outflow of gold;
(4) to support Government credit in connection with the issue of new loans or the conversion of existing loans; and
(5) to create and maintain conditions of cheap money as an aid to business recovery.—*Central Banking*, by M. H. De Kock, p. 225.

The technique* of the open market operations varies in different countries as shown below:

(1) The statutes of central banks provide for the purchase of securities for certain specified purposes which are not generally included in the accepted sense of the term. For example, the German central bank is authorised to purchase securities as supplementary cover for the note-issue.
(2) While certain countries have followed the Anglo-Saxon practice of confining the operations to Government securities, like the Treasury bills, others have added other securities for the purpose of open-market transactions For example, bankers' acceptances and commercial bills and debentures are permitted in the Netherlands and Denmark respectively.
(3) The majority of countries do not restrict the amount of securities which a central bank may deal in for purposes of open-market policy. A few, however, restrict the scope of these operations. The operations of the Argentine Central Bank, for example, are confined to 400 million pesos and those of the National Bank of Belgium to 1,000 million francs.—*Indian Journal of Economics*, Vol. XX, p 594.

The Bank of England does compete with commercial banks in England the market for the purchase or sale of Treasury bills. But mostly operations of the type are intended to correct the credit base in the banking sphere rather than really to compete with them.†

Two alternative courses may be adopted by the Bank, which are, in fact, complementary. Either, the objectives of its policy must be disclosed to the banks and their co-operation enlisted, or it must shorten the supply of open-market surplus credit to relieve the pressure of over-supply of short-term funds and allow interest rates to rise. This latter result is accomplished by the Bank participating in the market either as a borrower of such money, or as a seller of various securities The funds with which these securities (Consols, etc.) are purchased return to the Bank, the market thus being relieved of part of the money formerly available to it. Similarly, the Bank of England

* See Note at the end of this chapter.
† See the passages from the *Economist* on this subject in Appendix B.

may, with the object of making effective a lower bank rate, inject money into the market by the purchase of securities.—*Bills, Bullion and the London Money Market*, by W. K. Duke, pp. 62-3.

DIFFICULTIES AND METHODS OF CONTROL

Difficulties in the administration of central bank policy like monetary factors, international maladjustments and inadequate control of credit, are explained by Findlay Shirras thus:

There are difficulties which central banks have to face, difficulties which are specially great in a country where commercial banks possess separate note issues. These difficulties may be grouped under three heads. Firstly, non-monetary causes of disturbance, such as political troubles, over-production, changes in tariffs, changes in demand following changes in fashion, rigidity of wages, and other internal economic conditions. A second group of causes is the divergency that sometimes occurs between the interests of the country itself and those of the world outside, as, for example, in 1930 when it was not in France's interest to attract gold from abroad in excess of what the Bank of France required, because this would have caused an unwanted expansion of credit within France and would have injured the French export trade by lowering foreign prices relatively to French prices and thus contracting the demand. The influx of the short-term foreign balances in the London money market is always to be regarded as the equivalent to a negative gold reserve, and is in consequence a potential source of future weakness. A third group of causes centres round inadequate control over the monetary machine. The Bank of England, for example, has got, as already noted, a remarkably complete system of control, but neither the Bank of France nor the Reichsbank nor even the Federal Reserve authorities have a control to the same extent.

There is thus much for a central bank to do, because, as is often said, the management of currency and credit is not a science but an art. The control of prices, however, is an enormously difficult matter. It necessitates the elimination of cyclical variations in the short-period and the elimination of changes in the long-period price-level. This aspect of central bank policy, the possibility of exerting credit control in order to stabilise the price level, came into prominence only after the world war. It is only possible if the bank has the power of directing and regulating the amount and use of bank credit in general, and if bank credit is the most important price-determining factor. The control of a central bank is difficult in countries where a bill market is not developed, and where commercial banks are not willing to make use of the credit facilities available. Examples are the South African Reserve Bank and the Bank of Japan. A policy of patience, therefore, in this regard is essential. Advocates of price stabilisation through credit control point out that the central bank, by controlling the volume and velocity of currency, can regulate the price level. Central banks have become more and more responsible for controlling price trends, and can neutralise the effect on prices of a large supply of new gold by increasing their own reserves, or they may counteract the effect of a fall in the output of gold by

reducing the customary reserve ratios. But there are factors such as better methods of distribution and labour-saving devices that may operate on the goods side of the equation. Statistical information is also scanty These are but a few of the factors against the theory. Governor Strong of the New York Federal Reserve Bank told the Stabilisation Committee of Congress in 1926 that there was no magic formula that could be introduced into the Federal Reserve Act for controlling prices. "I have", he said, "discussed these matters with many economists and students of prices and purposely have always carried the discussion through the same course. We have agreed on the record of the past in the Federal Reserve system pretty generally, as to what has been done and the effect of what has been done. We have generally agreed as to the conditions at the present moment.... But, when I ask them, 'Now, we have got to decide something to-day, you are in the position of running the Federal Reserve system; what are you going to do to-day that will have an influence on the future?' the answer is always the same: 'Well, you are the practical fellows who are running this: you have got to decide that.' And that is the difficulty. Our examination of the past produces the most accurate knowledge of past action and reaction, but when it comes to a decision as to what we are going to do for the future, then just human judgment has got to govern. There is no mathematical formula for the administration of the Federal Reserve System or the regulation of prices."

The absence of a central bank means decentralised reserves, and this decentralisation is expensive and, at the same time, in times of crisis ineffective, because each bank then holds on to its cash balances and this intensifies the crisis. In the absence of co-operation each bank has to hold a larger reserve than under a centralised system The whole point of central banking in financial administration to-day rests on the principle that monetary stability can only be attained with efficiency and economy if the control of both currency and credit is placed in the charge of a single authority. Commercial banking cannot progress at a greater rate than that at which confidence proceeds in regard to the soundness of banks, and security depends upon the possibility of these being able in times of stress to turn into cash the maximum of their assets. Stringency breeds distrust, and distrust, as we have seen, leads to clinging to cash, and hence a crisis becomes inevitable. *It is clear, then, that the development of joint-stock banking can only proceed safely under the shelter of a true central bank.* Under a centralised system reserves can be replenished by re-discounting at the central bank, and since the demands for legal tender are at a single point, the ebb and flow of currency and credit can be supervised by the central bank itself.* In other words, the central bank possesses the power of changing the supply of cash

* The Dominions and India are primary producers, which means that there is a strong seasonal ebb and flow of credit, and the creation of apex or central banks will tend to prevent large variations in credit throughout the year. It may be noted that where there are new and relatively undeveloped money markets, Treasury bills are a useful outlet for short-term funds, although this system with the absence of limitations of time and amount may be open to abuse.

and indefinitely expanding credit among the competitive banks, a power which it uses with caution.

The monetary system of most, if not all, countries must be a managed system. The maintenance of the parity of the foreign exchanges without unnecessary disturbances to internal business, the avoidance as far as possible of the credit cycle, and the stability of the price level are objectives of a sound monetary policy which require day in and day out knowledge, judgment, and authority which a central bank alone in its independent position with its great resources and technical devices can attain. The Macmillan Committee described the Bank of England in regard to this very point thus: "We have in the Bank of England an excellent instrument for the purpose; independent of political influences, yet functioning solely in the public interest; with long traditions and experience and clothed with vast prestige, yet not distrustful (as we have learnt in evidence) of evolutionary change or hesitant of new responsibilities; entrenched in the centre of the struggle for profit and with access to the arena of the market, yet itself aloof and untinged by the motives of private gain." In the realm of financial administration the central bank, therefore, has important functions to perform. It must have, in short, the right to note issue, the right to hold the reserves of commercial or member banks, the right to buy and sell securities, and the right to discount. It must be at all times able to meet the demands which may be made upon it—it must be able to guard its cash reserve when required.—*Science of Public Finance, 1936*, pp. 1063-66. (Italics are by the authors.)

Methods of Control

The methods or instruments which may ordinarily be used by central banks for the control of adjustment of credit are:

(1) The lowering or raising of their discount and rediscount rates with a view to lowering or raising money rates generally encouraging the expansion or contraction of credit;

(2) the buying or selling of Government securities or other public securities in the open market with a view to putting additional funds into the market or withdrawing funds therefrom;

(3) the rationing of credit as alternative or an addition to raising discount rates;

(4) the taking of 'direct action' against those banks which borrow from the central bank for too long periods and in too large amounts or which have been found to make undue use of central bank credit for financing speculation or non-essential industries or consumers' credit, etc.;

(5) the use of moral suasion; and

(6) the use of publicity.—*Central Banking*, De Kock, p. 141.

The following passage explains the falling in line of the commercial banks in South Africa with the Reserve Bank of South Africa:

In the case of the South African Reserve Bank, for example, the commercial banks have been found to change their overdraft rates whenever the South African Reserve Bank changes its discount rate, and invariably in the same direction, although not always in the same degree When it raised its rate from 5 to 6 per cent. on the 13th November 1931, the banks raised their minimum overdraft rate from 6¾ per cent. to 7½ per cent. on the 19th November 1931, and when it reduced its rate from 6 to 5 per cent. on the 17th October 1932, again, when the Reserve Bank further reduced its rate to 4 per cent. on the 20th February 1933, they reduced their rate to 6 per cent.* on the 20th March 1933, but when the former reduced its rate from 4 to 3½ per cent. on the 15th May 1933, they did not make their further reduction of ½ per cent. till April 1934. Thus, as in London, the commercial banks in South Africa follow the bank rate promptly upwards and also downwards, except when it falls below 4 per cent.—*Central Banking,* De Kock, p. 210.

The main features and working of the Federal Reserve Amendment Act, 1935, in this regard are summarised thus by A. D. Gayer:

The new law places far greater power for the exercise of credit control in the hands of the new Reserve Board than the old one ever possessed—though hardly more than the latter enjoyed under the emergency legislation. It concentrates responsibility for national credit policy. The regional banks retain local autonomy in their dealings and relations with the member banks in their respective districts, but open-market operations are placed under the control of a committee on which the Reserve Board has a majority, and the Board is given authority over the other major instruments of credit control—changes in discount rates and member banks reserve requirements, in the prescription of margins for loans on securities, and so forth.

Open-Market Operations.—Since open-market operations are the most powerful single instrument of reserve policy in control over the volume and cost of credit, it would seem only reasonable to centralise

* It must be added, however, that on the 13th February 1933, they had partly anticipated the lowering of the Reserve Bank's discount rate by reducing their overdraft rate to 6¼ per cent

With regard to discounts, the commercial banks in South Africa usually adopt the local bank rate in the discount of bills which are considered to be eligible for discount by the Reserve Bank, while for other bills they charge higher rates varying according to the currency of the bill and the quality of the name or names thereon; and in respect of loans against gilt-edged securities for periods not exceeding three months, for which the Reserve Bank quotes a rate ½ per cent. above its discount rate, they also adopt that rate as a general rule.

The South African Reserve Bank, *e.g.*, was empowered in 1930 to make advances not only against trade and agricultural paper eligible for discount and Government Securities (including Treasury Bills) with a maturity not exceeding 6 months, as was formerly the case, but also against long-dated Government and Municipal securities, one-name bills or promissory notes secured by documents of title representing staple commodities fully insured and having extensive and active markets, and non-speculative dividend or interest-bearing securities having a ready sale on the stock exchange. Moreover, the maturity of commercial paper eligible for discount was extended from 90 to 120 days.—*Central Banking,* De Kock, p. 116.

responsibility for them and place it on a body representative of the Reserve Board and Banks, with authority to compel compliance on the part of individual Reserve Banks. Hitherto the Reserve Board has been charged with responsibility but lacked explicit authority. Initiation of policies has lain in the hands of a committee representing the Reserve Banks, the approval of the Reserve Board has been required; and the boards of directors of the Federal Reserve Banks have decided whether they shall participate. The Act puts an end to this diffusion of responsibility and the power of the individual Reserve Banks to nullify policies initiated by the Committee, with their resulting delay, obstruction and confusion. The power of the Reserve Board over the Open-Market Committee is limited by the presence of a minority of five members chosen annually by the Reserve Banks. Control by the government of the day over open-market operations is, in turn, tempered by the longer tenure of the Board members. The provision that purchases of government securities for the Reserve Banks may be made *only* in the open market and not directly from the Treasury (as they could have been under the House Bill) is a further safeguard against the danger of government financing itself by such measures. The requirement that discount rates, though they may continue to be changed as hitherto, must be stated at least every fourteen days and are subject to the Reserve Board's approval and alteration, is merely the necessary compliment of centralised control over open-market operations.

Reserve Requirements.—The provision conferring authority upon the Reserve Board to raise the statutory reserve requirements of member banks to twice their present level (but not to lower them) places another weapon in the hands of the Reserve Board to reinforce open-market operations in combating booms. The only difference from the law of 1933 is that under the latter, reserve requirements could be changed only in an emergency and required Presidential approval.

The power to vary reserve requirements is a function of monetary control second in importance only to open-market operations and likely to prove particularly effective at times when the latter do not prove powerful enough to curb inflation because of the magnitude of the excess reserves of member banks. The value of this weapon will depend upon the foresight and courage with which it is used and the success with which both the political and timing difficulties are overcome of exercising control before the process has gathered momentum and while "prosperity" still prevails.

It is a pity that the opportunity was allowed to pass of instituting a more scientific system of reserve requirements which took the velocity factor into account, perhaps by basing them in part on fluctuations in bank debits. It is likewise a pity that the illogical legal requirements governing gold cover for note issues and deposits were not altered to conform to more rational ideas while Congress was about it. But in view of America's vastly redundant gold stocks the question is not a matter of practical importance at the moment.

Discounting and Collateral Requirements.—The House Bill had proposed to wipe out the eligibility provisions regulating the discount

of paper by Federal Reserve Banks, and advances to member banks, and to make any sound asset eligible for discount at a Reserve Bank at the discretion of the Board. This would have been a very far cry from the theory of liquidity underlying these sections of the original Federal Reserve Act (though not equally so from Section 10*b* of the Reserve Act, adopted February 1932) that the supply of credit could not be excessive provided it were of the short-term, "self-liquidating" variety and granted only to meet the "legitimate" needs of trade. The inadequacy of this notion and its disastrous practical consequences were plainly demonstrated during both the boom and the depression. The Act does not go as far as the bill. It merely liberalizes and makes permanent Section 10*b*, which expired last March. While making no changes in the eligibility provisions, it permits Reserve Banks to make advances to member banks on paper otherwise described as ineligible, but subject to the limitation that their maturity shall not exceed four months and that a penalty in the shape of interest be added of not less than one-half of one per cent. Eligible paper would not, however, first have to be exhausted, as was required under the emergency legislation, before loans could be made on the other class.

These changes may possibly have considerable influence upon the portfolio policies of member banks and are not free from the danger that the latter may be encouraged to grant long-term loans with less discrimination. They constitute, however, a recognition of the inadequacy of mere technical provisions in regard to eligibility both in times of prosperity and depression. These provisions did not prevent a huge credit expansion in the boom—any more than they prevented the commodity speculation financed by commercial paper in 1919-20—and did reinforce a savage struggle for liquidity during the depression. During the banking crisis they failed to protect the banking structure from complete collapse. When help was most urgently needed to prevent the progressive spread of the rot of cumulative destructive deflation, many banks possessing otherwise sound assets were unable to receive adequate relief from the Federal Reserve for lack of the eligible variety. The same circumstance made banks reluctant to extend loans which could not be immediately "liquefied" at the Reserve Banks. Thus, at a critical period, the deflationary process was needlessly intensified because the Reserve Banks were inhibited from lending to member banks on satisfactory assets regardless of their origin The liquidation of assets on a falling and demoralised market contributed still further to depress values and this in turn further weakened the position of other holders of property and securities. The competitive struggle of the banks for eligible assets reduced the volume of deposits and the liquidity of the banks to the point where the banking structure had been so much liquidated as to have become entirely frozen. To unfreeze it, existing restrictions had to be temporarily removed under emergency legislation, and the Reserve Banks permitted to lend to member banks on other assets. This illustrates that general liquidity cannot be expected from a process of general liquidation, and that in times of universal stress only the bank of last resort can create liquidity by standing prepared to "liquefy" ordinarily sound assets which are technically

ineligible. Liquidity is not so much a quality which inheres in the character and maturity of certain credit obligations but which in large measure depends upon the general economic conditions prevailing at the moment.

Further light on the working of these provisions is thrown by the discovery during the depression that certain classes of eligible paper proved to be less liquid and secure than certain other types of paper which could not be discounted, such as security loans. Moreover, during the twenty-two years since the establishment of the Reserve System, quite radical changes in the scope of operations of member banks have materially reduced the proportion of the loans and investments of the latter represented by short-term self-liquidating paper which qualified under the eligibility requirements. As pointed out by Governor Eccles in his testimony at the House hearings, the volume of such paper held by member banks amounted even in 1929 only to about four billion dollars, or 12 per cent. of the total of their resources, and to-day is about two billion dollars, or 8 per cent. Commercial and industrial borrowing from banks has suffered a decline as a result of underlying changes in business practice, though the explanation is also partly found in pathological money market conditions. During the boom business financed itself largely by means of stock issues. The growth in the volume of savings and time deposits of member banks from one billion dollars in 1914 to ten billions at present has been another important consideration. Since it is both in the banks' and the country's interests that these deposits be placed in long-term investments, the situation is radically different from that of twenty years ago, and it would seem both proper and desirable that provision be made for permitting member banks to borrow on these assets from the Reserve Banks when exceptional need arises, while discouraging them from doing so at other times by the imposition of a penalty charge.

Real Estate Loans.—The liberalisation of the provisions under which national banks are permitted to grant real estate loans is made partly in the hope that it will induce member banks to lend more freely on real estate and so improve the mortgage market and stimulate construction. But it is also explained by the large volume of time deposits of member banks just mentioned. The sponsors of this section in the new law claim that it is not inherently less proper for a member bank to make mortgage loans against its time deposits than to purchase long-term bonds, and that the danger lies not in making real estate loans as such but in making poor loans of any kind. The depression exposed the fallacy of the belief that long-term bonds were safe because, being listed, they were readily marketable. The limitations placed by the Act upon real estate loans would appear to afford adequate safeguard against the abuse of the privilege.

The Dilemma of Credit Policy.—Credit policy in the contemporary world presents a dilemma. *In the face of so much inflexibility in the cost-price structure and so many apparently ineradicable social and economic controls over the free play of so-called natural forces, any credit policy is likely to have unfortunate consequences unless it is accompanied by an appropriate financial policy on the part of the national government. On the other hand, if government is granted*

the powers over the monetary mechanism required to integrate the two policies effectively, these powers are in danger of being used not in the general interest and the pursuit of economic stability, but for purely political purposes and for meeting temporary financial difficulties; and such use runs counter to the requirements of a wise long-term monetary and financial policy. If political authority is given the power, it may very well succumb to the temptation of abusing it; if it is not, much is left to chance in monetary and economic affairs, and a comprehensive, integrated financial-monetary policy becomes almost impossible. In any case the government is likely in times of crisis to take to itself those powers which it feels it needs There is no simple solution, and the advocates of both traditional "sound money" practices and "automatic" banking processes on the one hand, and at the other extreme those of completely "managed money" are equally one-sided and unrealistic and wide of the mark. *Under present-day conditions neither can the monetary mechanism be insulated from the effects of government's financial policies or from the general economic system of which it is such an integral part, nor, again, can the entire economic system be controlled by the manipulation of the single lever of the monetary mechanism.* The present Act may possibly prove to mark the beginning of a move towards the solution of this dilemma. If it is more than doubtful whether it does far enough, it is equally probable that we are not yet ready to go further without excessive danger. (Italics are by the authors.)

To the argument advanced against the original bill (which applies in smaller measure to the Act) that centralisation of control in Washington would spell political control and opens wide the door to inflation, the answer is not a denial of this very real danger, but the observation that in times of crisis automatic checks and legal safeguards of Reserve System independence are likely to be nullified in any event if the strain imposed proves to be intolerable. This has been demonstrated not only since 1933, when the entire banking structure collapsed, but was already shown during the depression before that date by the ways in which the Hoover administration found itself compelled to intervene. It was shown also prior to 1929, in prosperity, by the perversion in practice of the Reserve Act's original intention. It is to be admitted, moreover, that in more normal times the system is far less likely to be exposed to political pressures than in recent years, by reason of the small degree of temptation or necessity to exploit it for fiscal purposes. In view of the fact that in both good and bad times, but especially the latter, governments apparently cannot or will not divest themselves of responsibility for so nationally vital a function as the formulation of basic lines of monetary and central banking policy, and in view also of the inescapable mutual interaction of monetary and financial policies, it would seem that there is no alternative, however much we may deplore it, to placing responsibility squarely where those who are to wield it can be held answerable. No doubt the inherent danger is as great in periods of depression, when unwise measures may be hastily adopted, as it is in times of expansion, when the politically unpopular course of checking the boom will be difficult to take. But

this was already the state of affairs under the old law as it was operating prior to the depression. In this respect the new act marks some advance in removing the two *ex-officio* government members from the Reserve Board and greatly strengthening the latter's powers to exercise control over the system, while preserving its freedom from interference by the Treasury in its day-to-day operations. How, as a whole, the new law will work in practice must depend so largely both upon how it is administered and upon the President's appointments to the new Reserve Board, and equally upon the environment of government financial policy and general economic conditions in which it operates, that it would be temerity to hazard prediction regarding its ultimate effects.—*Quarterly Journal of Economics*, 1935-36, Vol. L, pp. 109-16.

None of these questions has been kept in view in the Act.

CAPITULATIONS?

It appears likely that in actual working, the Imperial Bank of India and the Central Bank of India will continue to enjoy special privileges not consistent with the spirit of the Hyderabad State Bank Act. For instance, it has been suggested in some quarters that the B.G. rupee deposits from out of the Paper Currency Reserve with the Imperial Bank of India should be continued by the Hyderabad State Bank. Such a thing would be quite against the preamble of the Act, and *all extra-territorial jurisdiction of any sort* implicitly or explicitly offered or reserved for such banks should be immediately and categorically disclaimed. If the Imperial Bank of India and the Central Bank of India readjusted their position as scheduled banks after the Reserve Bank of India was inaugurated, it stands to reason that they must readjust their position, so far as dealings in Hyderabad State are concerned, in view of the inauguration of the Hyderabad State Bank. For instance, the reserve ratios to be enforced must apply to these banks as well as to others. No special rights of any sort should be allowed either to the Imperial Bank of India or the Central Bank in the matter of reserve ratios, insurance of deposits and periodical returns, and all bankers should be included in the scheme for reserve ratios and deposit insurance, whether private individual, partnership or joint-stock. This will increase the cash holdings of the Bank and increase the facilities for depositing part of the B.G. cash holdings of the Paper Currency Reserve on call money terms.

The Reserve Bank of India publishes statements once a week, and there are valuable and numerous bulletins and periodical statistics and reports* issued by that Bank. There is no provision for such activity in the Hyderabad State Bank Act.

* How exactly the position in India is, and how far publications by the Reserve Bank of India help in publicity is revealed by the passage quoted below from *Indian Finance*-dated July 18, 1942:—

NOTE

The following article from *The Economist*, dated the 25th July 1942, on war-time technique of open market operations, throws further light on the subject:—

WAR-TIME TECHNIQUE

The operations of the "hidden hand", or the mechanism of the Bank of England's relations with the open market, have always been adaptable to coditions. But never has that process been so revolutionary as since the outbreak of the war. The changes that have occurred in the technique of open market operations have attracted little notice—curiously little in view of their implications on the development of the mechanism of credit control. That lack of interest may be due to the veil of mystery which, for some reason, has in the past cloaked the open market activities of the central bank in this country. But the coy reticence which has always caused the Bank of England to be referred to in this context as the "special quarter", and its activities as those of the "hidden hand", has surely become an anachroism now that the Bank's credit policy is a matter of Governmental responsibility.

It is possible to distinguish three categories of open market operations by the Bank of England The first is the operation undertaken in pursuance of a fundamental objective of central banking policy In the days of the gold standard, that policy, and the open market operations that served it, were aimed ultimately at safeguarding the exchange value of sterling. In 1932, the primary concern of open market operations was the cheapening of money and the preparation of the market for the War Loan conversion operation of that year Between 1932 and 1939, open market operations became hinged on the activities of the Exchange Equalisation Account, and their main concern was to insulate the domestic credit situation from the panic rushes of short-term money from one country to another. Since the outbreak of the war, the main objective of credit policy has been the provision of a basis of bank cash sufficient to underpin the expansion in the superstructure of banking credit, which has been the result of deficit financing from the banking system These fundamental objectives of central banking policy are partly, but not primarily, served by open market operations. At present, for example, it is by variations in Treasury deposit receipt borrowing that the elastic element in deficit financing by the banks is provided, and it is by ways and means advances, or by additional direct tendering for Treasury bills by the Bank of England, that the basis of bank cash is adjusted to the level required by the clearing banks.

The second category of open market operations is their use in remedying day-to-day maladjustments in the supply of credit This is, perhaps, the proper role of open market policy, and this function must be performed

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The publication of the annual report remained the responsibility of the Controller of the Currency until the inauguration of the Reserve Bank of India. With the abolition of the office of the Controller of the Currency, the publication of the report on Currency and Finance has been taken over by the Reserve Bank, and since the Reserve Bank took up this responsibility, the fullest information on every aspect of India's trade, finance, budget, currency, debt, exchange and economy is given The Report for 1941-42 is specially welcome as the war has necessitated the suspension of the publication of money, trade and other figures which were usually available to the public till 1939. This Report is specially valuable to us as confirming many of the conclusions which we had drawn in these columns on the basis of our own estimates and calculations. Our readers will recall that, with reference to India's finance, we emphasised three points:

(1) India is the only country whose budgetary deficit is a small fraction of the total budget;

(2) India has been able to raise her defence loans on the basis of 3 per cent.; and

(3) India is the only country which does not record any increase in her public debt at the end of 30 months of war. We have detailed calculations based on our estimates to prove the last point. Valuable confirmation is now available from the Reserve Bank's annual report. The position is even more favourable than we had indicated.

whatever the direction of central banking policy may be. These maladjustments are mainly caused by the impact of Government revenue and expenditure on the supply of bank cash Open market operations by the Bank of England have their origins in the loans on Consols during the "shuttings"—the periods when the register of Government securities was closed—and in the liberal rediscounting of bills that occurred when Government balances were being built up in preparation for payment of the quarterly Consols dividends. To-day, when the flow of funds to and from Government accounts has assumed such vast proportions, and represents so large a part of the total credit turnover, the need for these equilibrating open market operations is greater and more persistent than it has been in the past. It is admittedly by variations in floating debt and other borrowing that the appropriate balance between bankers' deposits and Government deposits at the Bank of England is ultimately maintained; but those adjustments can only be made weekly, while the size of Government revenue and payments may call for daily remedial operations. It is in these that the open market activities of the Bank of England are most in evidence

Thirdly, there are the open market operations which represent the investment or disinvestment of resources accumulated by public departments. These operations provide the bulk of the *masse de manœuvre* available to the authorities; and, by the manner in which they are used, they can be made to serve the credit control functions of open market policy. Since the beginning of the war, the sums thus made available to the Bank of England have increased enormously Not only have the surpluses of extra-budgetary funds been accumulating at an unprecedented rate, but much of the large sums held here for Empire and other sterling area countries have been invested with Bank of England guidance.

These three aspects of open market policy do not correspond to three clearly defined types of operations; they are constantly overlapping. The investment of public departments' funds will obviously be effected in such a way as, first, to serve the fundamental objectives of current credit policy, and, secondly, to maintain the required day-to-day equilibrium in credit conditions. But of the three aspects it can be said, first, that the ultimate objective which open market policy serves is now the provision of a cash basis adequate for the needs of war finance; secondly, that the enormous increase in the payments into and out of Government accounts since the beginning of the war has correspondingly increased the need for day-to-day open market operations designed to keep the supply of cash available to the banks on an even keel; and, thirdly, that the means available for open market operations have been multiplied many times' since the beginning of the war.

It was the increased scope of open market operations, and the sudden expansion in deficit financing by the banking system, which, almost from the first day of the war, revealed the inadequacies of the former open market technique. That technique had evolved on the basis of a deep-rooted principle of British credit machines that no direct contact in discounting should be allowed between the Bank of England and the clearing banks. Thus all measures taken for expanding or contracting credit were invariably effected through the discount market, which had become the recognised traditional link between the central bank and the commercial banks. The immediate increase in the scale of floating debt borrowing after the outbreak of war caused this barrier between the Bank of England and the clearing banks to break down. There were arguments against passing the whole of the increased Treasury bill issue through the discount market. One of them was that it would bring this market a wholly undeserved increase in the automatic profit made on reselling Treasury bills to the banks. The practice thus began of feeding the banks direct with Treasury bills.

Once the principle of direct discount business between the Bank of England and the clearing banks had been established for the purpose of deficit financing, it could be made to apply to the whole range of open market operations of the Bank. A symbol of the partial withdrawal of the open market machinery from the discount market is provided by the fact that the firm of Seccombe, Marshall and Campion, which for many years has conducted the open market operations of the Bank of England, recently left its offices in Lombard Street and became housed in the building of the Bank of England.

CHAPTER X

APEX FINANCE

"At the moment, measures adopted by Governments modifying the monetary mechanism and controlling banking operations are of greater significance than are changes in balance sheets."—*Monetary Review,* League of Nations, 1940.

WE have indigenous money-lenders doing short-term and long-term lending work, we have co-operative societies, we are going to have land mortgage banks, and we have a programme of financing small and large industries. We require an apex financing institution:

(1) for adjusting sluice-gates of the financial reservoir in view of the needs of each avenue of investment as well as of the condition of the reservoir itself, and,

(2) for ensuring an adequate storage of money in the reservoir: if the usual supply proves inadequate, finance will have to be *manufactured*—if the people should live and live happily by getting adequate supplies of purchasing power in view of numbers and the general standard of life.

Accelerating increase in note issue (consequent on allowance of smaller metallic cover) is the general feature all round. The figures given below in millions of national currencies speak for themselves:

REFLATION

"Unemployment develops because people want the money: men cannot be employed when the object of desire (that is, money) is something which cannot be produced and the demand for which cannot be readily checked off. There is no remedy but to persuade the public that green cheese is practically the same thing, and to have a green cheese factory (that is, a central bank) under public control"—LORD KEYNES.

The credit base and the rate of expansion of credit will have to be determined, not on the basis of gold or silver coin or bullion, nor on a fixed statutory price of either metal, but on the level of employment and production sought for.

The following extracts from a recent article by Prof. A. C. Pigou in the British *Economic Journal* throw much light on the need for reflation.

When recourse is had to inflation, this is operated by the Government borrowing from banks, or getting the public to do this for it, or issuing paper money, and so, in one way or another, creating, or getting created, new purchasing power for its own use.

Country	Average note issue in 1929	1931	1932	1933	1934	1935
Hyderabad	74·621	89·414	98·499	102·455	107·870	110·552
India (British)	1831·1	1636·4	1738 3	1781·3	1832·4	1916 5
Japan	1642	1331	1426	1545	1627	1767
Germany	5044	4776	3560	3645	3901	4285
France	67769	83547	82721	80638	81855	80669
England and Wales	405·8	395·7	394·8	450·7	452·3	460·0
United States of America* ..	1910	2624	2739	3289	3247	3709

Country	Average note issue in 1936	1937	1938	1939	1940	1941
Hyderabad	121·127	126·528	139·533	137·199	145·738	165·094
India (British)	2016·8	2117·8	2105·8	2277·5	2587·7	5988·7 (Jan. 8, 1943)
Japan	1866	2305	2755	2539 (Nov. 18, 1939)	3636 (Oct. 26, 1940)	
Germany	4980	5493	8223			
France	87420	91263	108532	121391 (May 25, 1939)		
England and Wales	513·7	546·40	556·4	526·4 (June 28, 1939)	580·2 (Jan. 10, 1940)	880·2 (Oct. 1, 1942)
United States of America* ..	4284	4284	4452	4477 (June 1, 1939)	4948 (Jan. 3, 1940)	10658 (Oct. 2, 1942)

* Figures given are only of notes issued by the 12 Federal Reserve Banks and do not include other notes in circulation in the U.S.A.

In normal conditions aggregate money income bears a fairly constant proportion to the stock of purchasing power in existence, since people turn that over at a fairly constant rate. With money income rising not very rapidly, by not more than, say, 25 per cent. or may be, among a population not liable to financial panic, not more than 50 per cent. per year, this state of things might go on for a considerable time. But, if the rate of inflation is high, or if people are financially jumpy, there is always a danger that they may come to distrust their money. If, for example, the stock of purchasing power were being increased 25 per cent. per month, they might well try to change money the moment they received it, into other things. A flight from money might be started. If this happened, money income would be expanded much more than in proportion to the stock of purchasing power. Still more purchasing power would then be needed to cope with the resultant high prices of the goods and services needed by Government. A cumulative process would be set going. Simple inflation would have passed, as it passed in Germany after the Ruhr invasion, into *galloping inflation.* This is a quite different and much more serious disease. If it were allowed to develop, the whole economic system would be disorganised and the war effort itself would be gravely hampered. Hence, while a moderate use of inflationary methods threatens no grave danger, and might perhaps be excused on the ground that the imposition of unpopular taxes in war time is bad for morale, to rely on these methods on a large scale would be desparately dangerous. For this reason it is essential for the Chancellor to see that recourse is had to inflation either not at all, or at least on only a small scale. This implies that he must avoid any large creation of new money: he must collect in taxes and public loans (not financed through the creation of bank credits) a proportion of money income not far short of the proportion of the country's real resources (as valued in money) that the Government has decided to devote to war (plus civilian Government services). By what process he accomplishes this, in what proportion he decides to mulct people of different degrees of wealth are secondary matters, most important, no doubt, but still, from the present standpoint, secondary. The vital thing is, by one device or another to raise enough money by non-inflationary means to make sure that galloping inflation does not set in. There are four indices, which, if everything ran upon oiled wheels and if productive efficiency remained constant, might be expected to move roughly parallel with money income. These are: (1) the volume of coins and notes held outside the banks, (2) the volume of bank deposits, (3) the aggregate amount of money wages, and (4) the general price level. (Italics are by the authors.)

In a more recent article on "Types of War Inflation", A. C. Pigou defines 'inflation' as

"money income expanding more than in proportion to income earning activity".

The degree of inflation is described as the proportion between the money incomes and the money balances.

Money income would be increased by 10 per cent. either if the stock of money is increased by 10 per cent., or if the proportion

of money incomes to stocks of money is increased by 10 per cent. He further differentiates between wage induced inflation and deficit induced inflation—the former arising out of increased money incomes *not* accompanied by corresponding increase in income earning, the latter out of creations of new money (coin, notes or bank deposits). Of the two, he thinks that the former is more dangerous: once wages tend to rise, the race between prices and wages leads to a vicious spiral. Deficit induced inflation has these advantages:

> First, even if the deficit induced inflation is in no part cancelled, by increased contributions to the Government from genuine savings the amount of new money that has to be created, which is the same at the outset as the amount that had to be created under the supplanted wage induced inflation, will remain constant, whereas the amount would grow continually larger, because wage increases entail price increases which in turn further leads to further wage increases. Secondly, deficit induced inflation can be arrested by filling up the deficit whereas wage induced inflation, unless the chasing of wages after prices is prevented, cannot be arrested by any means whatever.

He estimates that during the first two years of the present war, there was in Britain a gross inflation of 30 per cent. accompanied by an increase in income earning of 10 per cent. This gives a *net* inflation of 20 per cent. which he considers by no means a "serious evil".

The Monthly Bulletin of the Bank of Nova Scotia says that

> "probably no word in the vocabulary of the inexact science of economics is used so widely as inflation and at the same time given such a variety of meanings".

A writer in that journal defines inflation as follows:

> In popular discussion, the word is used to describe such various developments as printing of new currency, expansion in the volume of bank credit, an increase in Government deficits, rising commodity prices, or mounting costs of living. Not so long ago, the term was used in regard to large excess reserves of the American banking system and there have also been times when soaring stock markets and rising interest rates have been labelled with the same tag. All these things related to inflation: some may be causes and others symptoms. But none of them provides an adequate or accurate definition.
>
> Inflation may be described quite simply. It is the result of spending which is excessive in relation to the available supplies of goods and services. It is the condition which arises when the rate of expenditure by the people of a country gets out of line with that country's ability to produce. More money is spent but there is no comparable increase in the supplies of goods and services in the market-place—perhaps even there is a decrease.

But according to the Hyderabad State Bank Act, the note issue is tied to a minimum cover of 60 per cent of rupee coin: any large increase in note issue—to meet either war purposes or of increasing business activity in peace-time—could be at Rs. 100 for every Rs. 60 *in coin* held in reserve. Such kind of consideration for silver mine interests could be explained in a country like the U.S.A. with huge silver mines, but in Hyderabad we have no silver mines. And suppose for some reason or other, silver becomes very dear in the world market, or on account of war is not available at all, the position in Hyderabad would become quite impossible—unless the fineness of the rupee coin was pulled down continually. But how far such a debasement of the rupee coin could prove a better alternative to issue of notes against a smaller rupee coin cover (that is, a higher fiduciary issue), is a matter to be seriously considered. As suggested in an earlier chapter, the proper thing to do would be to adopt the principle of a variable maximum fiduciary issue (as is the case in Britain to-day).

The present situation is one which demands very careful examination In previous years, the Hyderabad rupee used to appreciate in terms of the British Indian rupee during the busy season—with an increase in demand and more or less stationary supply of the Hyderabad rupee. But during the last year or two, the war has brought about a highly favourable balance of payments due to Hyderabad, and the present policy of the Government authorising the Hyderabad State Bank to buy any amount of B.G. currency at the market rate, allowing to the Bank the difference between the market and the standard rates, has been resulting in the accumulation of large B.G. deposits with the Imperial Bank of India—constituting the B.G. part of the "cash" in the Paper Currency Reserve. This fast accumulating B.G. balance with the Imperial Bank closely resembles the almost helpless additions to sterling balances of the Reserve Bank of India (Issue Department) in Britain. Recently, the Hyderabad Government order that the note issue be allowed to increase to the extent of Rs. 30 crores. Within the four corners of the currency legislation now in force, this could be possible only on the basis of the increasing balances with the Imperial Bank of India—considered as "metallic cash". How far the holding of the assets of the Reserve in larger proportions in B G currency which is fast depreciating is scientific, whether it should not be possible to utilise at least portions of the *net* dues to Hyderabad in purchasing non-monetary gold in British India (purchase of first-class devisen like the dollar is, of course, out of the question)—these are very important questions which deserve close scrutiny at the hands of the authorities *

* Compare the case of Finland cited on page 90.

CHAPTER XI

APEX FINANCE

(*Continued*)

EASY MONEY POLICY

"The borrowing problem is child's play if the budget problem as a whole is tackled from the right end—that is to say, by controlling consumption"—LORD KEYNES.

THE maintenance of an easy money market depends on borrowings being out of genuine savings, and on the types and timings of issues preceded by sufficient financial manipulation and propaganda towards the money rate going lower. The following comments by the *Economist* are descriptive of conditions in Britain.

The present position of the gilt-edged market is beginning to be propitious for an issue. War Loan at 97 (Thursday's closing price) yields only £3-12-6 per cent. and Old Consols at $72^{5}/_{16}$ yield £3-9-3 per cent. The rate of interest on perpetual stocks, in short, is virtually down to 3½ per cent. and a comparatively small continued exertion of pressure would bring it still lower. The conversion, announced this week, of 4½ per cent. Conversion Loan to a 2 per cent. basis has already had a measurable effect, and a "cheap-money" pronouncement by the Chancellor would carry the movement further.

With perpetual stocks within a point or two of a 3½ per cent. basis, it will soon be possible to issue a 3 per cent. loan, possibly at a small initial discount, if it had a life of not more than, say, 15 to 20 years; the existing 3 per cent. Defence Loan, which has a life of 14 to 18 years, stood on Thursday within 1½ points of par. This shows the way to Government loan policy. If the first war loan were a security of this character, two advantages would be secured. The first would be to fix in the public mind the notion that 3 per cent. is a reasonable rate for the Government to pay. Just as the last war was a 5 per cent. war. And secondly, by keeping the life of the issue short, it would still be possible to keep up the pressure on the gilt-edged market, and as the long-term rate of interest fell, the life of subsequent issues could be gradually lengthened, until it might eventually be possible to offer really long-term securities on a 3 per cent. basis.

The advantages of borrowing at a low rate of interest are too obvious to require statement. They are so great that they should not be imperilled by mistaken endeavours to raise more from the market than the savings of the public can provide. Nothing could be more stupid than to increase the rate paid on genuine savings for the purpose, not of preventing inflation, but merely of inducing

private persons rather than the Government itself to sponsor an inflationary expansion of credit. The created money that the Government borrows will be nonetheless inflationary because it costs 5 per cent.

The main outlines of a borrowing policy can thus be summarised in three propositions First, the genuine savings of the people should be increased by every available means, including the severe restriction of all expenditure. Secondly, these genuine savings should be borrowed at low rates of interest. And lastly, any balance of the Government's requirements should be recognised as being obtainable only by inflationary means and dealt with accordingly.

Lord Keynes' 'Easy Money Policy' as recommended for Britain in December 1939, runs thus:

Let us return to the budget of fiscal resources which ultimately emerges from this examination of our income potential. I would remind the reader that I am dealing with an increase of government expenditure of the order of £1,500 to £2,000 million a year, *i.e.*, a total central government expenditure in the neighbourhood of £2,500 to £3,000 million at pre-war prices An increase beyond the higher of these figures, which would represent more than half the present national income, would require a far more extensive reorganisation of our economic life. To fix our ideas let us take a figure half-way between these limits—namely, a government expenditure of £2,750 million a year at pre-war prices. (The Chancellor of the Exchequer has recently estimated the present rate of expenditure at £2,400 million a year.) As before, I am dealing only in the roundest of round figures.

	Million £
(1) from the yield of the taxes already projected for 1940-41 from the higher national income here presumed and taking no account of time-lags but not including E.P.T.	1,250
(2) (*i*) from the sale to foreigners of gold and securities, (*ii*) from treasury bills taken up by overseas banks in London out of their increased sterling resources, (*iii*) from lending to the government the proceeds of sinking funds depreciation reserves and the depletion of stocks of commodities	550
(The magnitude of this figure shows how gross an exaggeration it is to say that practically the whole of the expenditure has to be financed out of current effort and abstention.)	
(3) from normal current savings largely institutional, especially insurance offices and company reserve funds.	300
(On the one hand, I am allowing no increase to correspond to the higher national income and the increased incentives to economy; but, to compensate this, I do not propose to diminish it in respect of the overlap with the compulsory saving	

proposed below. It includes an amount corresponding to the £50 million lent to the government out of normal savings in the base year.)

From existing and normal resources, which falls £650 million short of what we require ..	2,100
from compulsory savings	400
from new taxes including, perhaps, a sales-tax on non-essentials	50
from E.P.T., and from the higher yield of the existing taxes (assisted, if necessary, by increasing E.P.T. to 80 per cent) and the increased voluntary entrepreneur savings indirectly resulting from allowing prices to rise (say) 5 per cent. more than wages and salaries	200
TOTAL ..	2,750

It should be noticed that this programme (apart from the rather indeterminate last item) involves voluntary government loans of no more than £850 million in the course of a year, nearly two-thirds of which would come, not from new savings, but in exchange for existing capital assets. Moreover, in so far as proceeds are realised from the sale of gold by the Exchange Fund, this requires no public issue. I am not relying on any increase whatever in the voluntary savings of individuals, in addition to the proposed compulsory savings, apart from increased reserves set aside by entrepreneurs under the last item above. The moderate size of the amount to be borrowed suggests the following conclusions:

(1) *The borrowing problem is child's play if the budget problem as a whole is tackled from the right end—that is to say, by controlling consumption.* If inflation comes about, it will be on account of an attempt to increase consumption mainly by those with from £3 to £10 a week. A patriotic appeal may have some effect on this. But how can anyone suppose that it can be prevented by issuing government loans at 3 or 3½ per cent. instead of at 2½ per cent.?

(2) Those are not less misguided who suppose that the consumption of the general public can be prevented from increasing by a policy of borrowing direct from the public without recourse to the banks. The volume of bank credit works through the rate of interest and is only relevant to those factors which are sensitive to moderate changes in interest rates (which a man's desire for a glass of beer is not). The amount which can be prudently borrowed from the banks depends on quite different considerations—namely, on how much of their resources it suits business firms and the public in the altered circumstances of to-day to hold in the form of cash. Certain capital assets will be realised, profits will be saved and held in reserve against contingencies and subsequent tax liabilities; and it is probable that it will suit those concerned to hold a substantial part of the proceeds in liquid bank cash rather than in investments. In so far as this is the case, these resources do not cease to be genuine savings (past

or current). There are the following important reasons why a larger amount of "genuine" savings will be kept liquid with the banks:—

(*i*) A larger volume of output with higher prices and wages;
(*ii*) Money held against heavier taxes to be paid long subsequently;
(*iii*) Money which has not yet reached the ultimate holder who is in a position to invest it permanently;
(*iv*) Doubt as to the future loan policy of the Chancellor of the Exchequer;
(*v*) A general desire to be rather more liquid than usual at a time when it is difficult to foresee the future and the demands it may make.

The bank deposits of the country are about £2,250 million, of which £1,300 million is on current account, and the active note circulation about £500 million, making a total of £2,750 million. An increase of 15 per cent. in output coupled with increases of (say) 10 per cent. in wages and 15 per cent. in prices, taken in conjunction with the other special circumstances mentioned above, would justify an increase of the order of 20 to 25 per cent. of the above total, which means that £550 to £700 million could probably be financed through the banks and the note issue without forcing the pace or raising Stock Exchange prices to an extent which might provoke a speculative boom. In present conditions when new investment is strictly controlled, an exaggerated fall in the rate of interest and in risk premiums as measured by Stock Exchange prices is the only indication we need watch that bank credit expansion is becoming excessive Commodity prices will depend not on this but on the relation of consumption to available output. These figures are not far short of the amount of voluntary loans required in the first year. Thus the indications are that it would be practicable, and probably advisable, to wait for the best part of a year before issuing a intended for the public.

But this must not be misunderstood Borrowing from the banks on this scale is a once-for-all proceeding It cannot be repeated in the second year. Having increased output 15 per cent in the first year, we could scarcely expect to increase it by a further 15 per cent. in the second year; and having allowed an increase in prices in the first year to correspond to an inevitable increase of costs here and abroad, it should be our object so to control consumption as to avoid repeating this movement in the second year. These considerations combine with the factor of time-lag to enforce the conclusion that it is in the first year that the bulk of borrowing through the banking system is in order. *In the first year the right technique is to borrow mainly through the banking system, and thereafter mainly from the public. The right timing of the loan programme requires no wizardry.* The movement of prices in the gilt-edged market will itself indicate the rate at which the legitimate public desire for liquidity becomes satisfied; though, of course, these prices (and also the desire for liquidity) will be profoundly influenced by expectations as to the nature of the Chancellor's loan policy. The market will conform to the best guess it can make of the rate of interest to be carried by prospective loans of different maturities. *If the rates are expected*

to range round 2½ per cent., the market will oblige; and if the Chancellor prefers to borrow at a higher rate they will raise no objection. Meanwhile they wait nervously for him to give a hint. —*Economic Journal*, Vol. XLIX, pp. 632-35. (Italics are by the authors.)

Maturities and Interest Rates

The relations as between short and long rates of interest and the repercussions of central banking policy thereon are analysed in the following passage by F. A. Lutz:

1. The costs of borrowing make the borrower's short and long rates higher than the corresponding lender's rates

2. The costs of shifting tend to make the lender's long rate somewhat higher than the lender's short rate. There can be no doubt that the costs of shifting alone prevent people with relatively short funds from investing in bonds, and induce them to leave their funds on deposit with a bank where they receive either no interest at all or else a much lower rate than they would receive in the long market.

3. Within each market the lenders obtain a net rate which is the higher the longer the time for which they have their funds available.

4. The costs of borrowing make for a higher borrower's short rate than long rate. The costs of shifting for the lender, although they make for a higher long rate than short rate, are not likely to be sufficient to raise the borrower's long rate to equality with, or above, the borrower's short rate. It is not possible to prove this accurately by reference to the facts. For the difference between the rates on bank loans and the long-term rate (say on bonds) is not only dependent on the cost factor, but is also influenced by expectations as to the future course of interest rates. However, it seems safe to say that in "quiet" times, when there is no particular reason for the market to expect changes in interest rates, the customer's rates charged by the banks are considerably above high-grade bond yields, even if we add to these latter a percentage figure expressing the per annum costs of borrowing through the bond market........

The analysis of the relationship between long and short rates has a bearing on many problems, practical as well as theoretical.

1. If it is true that only changes in the long rate affect investment, it seems to follow that the discount rate can only influence investment if the discount rate reacts on the long-term rate. Now one of the conclusions which can be drawn from the analysis in this article is that a change in the short rate will bring about a change in the long rate only if a general conviction is created that the short rate will remain low for a considerable time. Therefore the monetary authority has to create such a conviction, if it wants to bring down the long-term rate and to induce more borrowing. Owing, however, to the fact that in the past, particularly under the gold standard, the discount rate was changed very often, partly with an eye to the external situation of the country, the public has become used to frequent changes in the short rate and is not inclined to believe that a low level of short rates is going to persist. This seems to imply that *the discount rate should be altered as infrequently as possible. If this is*

not feasible, the central banks must try to influence the long rate directly, if they want to regulate investment. (Italics are by the authors.)

2. An entrepreneur who considers whether to borrow capital or not is said to compare the marginal efficiency of capital with the interest rate. Which interest rate? An entrepreneur who wants to finance long investment has to compare the existing long-term rate with the average of the expected future short-term rates (plus the costs of re-borrowing) or, if he expects the long rate to fall, with the average of the short rates for part of the time and the long rate for the rest of the time for which he wants to borrow. Whichever is the lower will be the one which he will set against the marginal efficiency of his capital or his expected profit rate. As the different entrepreneurs will usually have different expectations, they will base their action with regard to investment on different rates. There is, therefore, no such thing as "the" interest rate which keeps "the" entrepreneurs from expanding, unless we assume very stable conditions in which there is no reason for any entrepreneur to think that the rates will change.

3. A wide gap between short and long rates may exert a considerable influence on the amount of new borrowing that is undertaken. If the long rate is above the short, which implies an expectation that the long rate will rise, borrowers will try to borrow long in order to take advantage of the particularly low rate. The lenders, among them the banks, have an opposite interest: they prefer shorter maturities in this situation. It may therefore be difficult to float long-term securities. There are, however, several ways out of this difficulty. One way would be for the borrowers to shorten the maturities. Apparently for this reason, the British Treasury did float its Defence Loan of 1937 in the form of bonds with the comparatively short maturity of seven to ten years, and still more recently (January 1940) a Conversion Loan has been announced with only three to five years to run.

The same problem exists, probably in even greater degree, with regard to flotations by corporations, and the difficulty may possibly be accentuated by the fact that the corporations have to make use of investment houses. The latter may be reluctant to float bond issues, either because they are afraid that the interest rate will have risen before they have sold the whole of the issue, or because they are anxious to avoid disappointing important customers (*e g.*, institutional investors), who may suffer a loss because the interest rate rises after the bonds have been sold to them. Here again, a shortening of the maturities would facilitate borrowing operations. However, in view of the high costs of borrowing, corporations cannot adopt this procedure so easily as a government can. Corporations have therefore sometimes used different methods to adapt their flotation to the situation where the interest rate is expected to rise

First, as has been mentioned before, there have been many cases of serial issues where the bonds which fall due later bear higher interest rates than those which are due earlier. By issuing these serial maturities the corporation accommodates lenders who do not want to invest in long-term securities. At the same time it is enabled

to take advantage, in some measure, of the low rates prevailing for shorter maturities, and to "spread" the costs of borrowing. Secondly, recourse can be had to the practice, so far not very common, of issuing securities with variable interest rates. Such issues are made attractive to the lender by a rising nominal interest rate which will protect him against a loss (or at least reduce it), if and when the long rate in the market rises.

4. The analysis of this article has shown that the relationship between interest rates on different maturities is determined in the main by the expectations as to the future course of interest rates. According to the "liquidity theory of interest", it is the degree of liquidity of securities with different maturities which determines this relationship. The most liquid asset, money, does not bear interest. Securities, being less liquid than money, bear an interest rate which is the higher the longer the maturity, since the danger of a capital loss due to a change in the interest rate in the market is supposed to be the greater (and therefore liquidity the smaller), the longer the security has to run. We know, however, that the short-term rate can be above the long-term rate, a fact which does not seem to fit in very well with the liquidity theory of interest. It is not possible to get out of this difficulty by calling a situation in which the short rate is above the long an exception, and ascribing it to the "technical conditions of the market" in times of financial crisis. The short rate is too frequently above the long, and often stays above it for too long a time, to warrant such a statement. In London, for instance, the short rate was above the long rate for nineteen months from the end of 1919 to the middle of 1921, and for eleven months in 1929. Before the War of 1914-18 there are apparently times where the short rate was above the long rate for even longer periods, and the long rate cannot be said to have shown a tendency to stay more often and for longer periods above the short rate than the short rate above the long.

If we can bring ourselves to adopt a rather unusual yet logical definition of the term liquidity, we can still say, in spite of these facts, that the degree of liquidity determines the relationship between the rates on different maturities. One asset is said to be less liquid than another because the danger of a loss seems to be greater in case it is sold. Now if the owner of an asset thinks that he has a good chance of making a gain when he sells it, it seems to be logical to attribute a particularly high degree of liquidity to this asset. In times, therefore, when an investor expects the interest rate to fall, we should have to say that he regards securities with longer maturities as more liquid than those with shorter maturities, and is consequently prepared to take a lower rate on the long ones than on the short. Provided we adopt this terminology, we can say that the degree of liquidity of securities of different maturities, as understood by the marginal lenders in the different markets, determines (together with the cost factor) the relationship between the interest rates.

Daniel Marx Jr. emphasises the importance of both expectations and the liquidity theory in explaining the structure of interest rates in these words:

It is true that concepts of the liquidity of maturities are influenced by expectations as to the future trend of interest rates. By the same token, expectations operate through the liquidity concept, the latter furnishing a subjective rationale to the mechanistic relationship of the "expectation theory" which expresses itself through a mathematical formula, using the future short rates as data. Desire for liquidity is a factor in explaining why people act as they do on the basis of their expectations. The two theories are therefore complementary, and together shed more light on the subject of interest rate structure than either can when used alone.

INDIA

The following passage explains how an Easy Money Policy has been an accepted one both in Britain and in India:

Mr Keynes' views seem to have been adopted by the British Treasury, the bank-rate which was put up to 4 per cent on the outbreak of the war has been brought down to 2 per cent. Minimum prices have been fixed for gilt-edged and the market is being nursed for the coming war loans. The control of new issues in the market has already been instituted by the formation of the Captial Issues Committee Thus in the near future, and at least so far as Government borrowing is concerned, a policy of easy money is likely to continue. *The problem of preventing unsound developments will probably be tackled mainly through the control of the money market and the rationing of credit rather than the* laissez-faire *method of raising the rate of interest* It is obvious that Mr. Keynes' views, applicable to Great Britain under the extraordinary conditions of war and large borrowings, are much more applicable to India Easy money is necessary for the rapid industrialisation of the country. It is essential that the partial recovery and investment activity experienced in recent years should not be prematurely damped by a deflationary policy. The fact that banks and insurance companies have necessarily invested large amounts in gilt-edged is an additional reason for maintaining gilt-edged prices. The rising building trade and public utility development of the country also require the stimulus of easy money. Immediately after the outbreak of the war there was a tendency for gilt-edged to sag, and Treasury Bill rates to harden. That tendency has been to a certain extent remedied now by the Reserve Bank's action in expanding currency and by the influence of easy-money conditions in England on Indian Securities. It can, therefore, be confidently expected that in the near future conditions of easy money will continue to prevail in India.—*The Indian Journal of Economics*, Vol XX, pp. 564-65. (Italics are by the authors)

Although Government War Loans to the end of September 1942, amounted to Rs. 119 crores, the money market in India has been comparatively easy (we should remember that investment on war and peace production has been comparatively little), and the latest position is summarised thus by *Indian Information*:

Cheap money and investors' confidence in the future of gilt edged price mainly accounted for the steady tone of gilt edged values. The

intrinsic strength of the security market was indicated by the consistent demand for long-term issues. There was no banking crisis, despite the pressure of hoarding. The persistence of cheap money was due, among other things, to the expanding cash resources of the money market as a result of the accretions of sterling, the operations of the Reserve Bank, the maintenance of the Bank Rate and Bond Rate at 3 per cent, the relative and temporary setback suffered by agriculture and trade and the lower level of agricultural prices.

The need for easy money policy is non the less in Hyderabad than in Britain or British India. The proper agency for controlling the money market and rationalising credit scientifically and qualitatively is the Hyderabad State Bank. Even from now, the Bank would do very well to busy itself fully with these and such fundamental problems rather than with primary commercial banking: the latter step *must* lead the Bank in the wrong direction.

The export trade of the Dominions has more than doubled, but the circulation of metallic rupees and notes is comparatively inadequate. One rupee notes have been issued only in small quantity. The pressure on the Government of India Press making notes is said to be so great that it is not able to meet the demand of the Hyderabad Government for new notes of higher denominations. Again, the provision made in the Act for the expansion of the note issue against a small percentage of commercial bills as backing, has not yet been given effect to. The minting of subsidiary coin has become a problem on account of fabulous rise in the price of the concerned metals. Thus there is in the market these days great pressure of demand for metallic rupees, notes and small change. Our plea is that if at least the printing and supplying of notes (including one rupee notes) had been entrusted into the hands of the Bank, that Bank should have been able to arrange for timely supply. The present situation also proves that very soon, even the provision for expansion of the note issue suggested in this volume, will become insufficient, and the extent of the fiduciary issue would have to be expanded—either by raising the limit quantitatively or by lowering the percentage of cash backing. The necessity for this in the near future will be all the greater as the component parts of a scientific money market have yet to be developed, and till then, money rates will depend mainly on the amount of the circulating currency.

CHAPTER XII

APEX FINANCE

(*Continued*)

PLANNING, PUBLIC WORKS, PRICE AND WAGE TECHNIQUE

"The desire to expand the functions of money is not a new phenomenon in central banking history. There have always been heard the voices of distinguished scholars urging control of the issue of money in one form or another for the purpose of affecting certain social ends which lie somewhat outside of the immediate field of monetary phenomena."—WINFIELD W. RIEFLER.

"Technology has brought us far beyond the point where price can be relied upon to effect automatic adjustment of our economic society. Economic planning and price administration are emerging clearly as the pattern of our economic society."

"When price analysts demand the portrayal of 'total situation' and examine the price-making process as something relative to the influence of economic institutions, they pass definitely from the mechanistic to the biologic level and concern themselves with organic aspects of the economic process."—E. G. NOURSE.

"The significance of central bank operations lies in their repercussions on the flow of income."

"Possibilities of disequilibrium through profit inflation are inherent in the commodity price stabilisation programme so widely advocated in the 1920's."

"The Gordian knot that is absorbing the attention of so many economists in Great Britain is, how to use credit policy to achieve and maintain full employment in a system of free enterprise operating under the limitation of rigid costs."—W. W. RIEFLER.

PUBLIC planning presumes adequate and reliable data. An enlightened public works policy presumes accommodative finance. Interest, price and wage technique involve scientific handling of the purchasing power of money and the money market. In all this work, the central bank is *not the sole* instrument that could help a government, but no government could ever hope to appreciate and handle these problems without a high level of co-operation on the part of the central bank of the country. And no central bank could help effectively unless fully armed as well with technical ability as with adequate legislation and an open-minded administration. As has been put aptly in the passage below, the day has long passed when the powers that be could discuss (and only discuss) the desirability or otherwise of a planning approach to public policy. Plan we must: whether

hospitals or playgrounds, will depend on the imagination and courage of conviction of the government of the day. In any case, that government would be like a mariner without the compass which tried to jog on without a fully alive central bank. President Roosevelt has liquidated the Works Progress Administration in view of the war boom in employment, but he could never even dream of doing away with, or attaching less importance to the counsels of the Federal Reserve Board: the F. R. B. is indeed the President's "wonderful lamp"!

The planning approach in public economy extends even to consumption. Should consumption be determined on the basis of voluntary *individual* exchanges, or should it be moulded on the revenue-expenditure process of the Government? The option is open in the first case only to those whose earnings are above the minimum subsistence level whereas the latter process empowers the State to decide on how best consumption should be organised in the country for the maximum welfare of the population. The following discussion by R A. Musgrave is instructive:

> The task of planning for an efficient operation of the public sector of our economy offers numerous immediate problems which are entirely independent of the derivation of social value scales from individual preferences. Whether other things being equal, hospitals are to be preferred to playgrounds is a matter of "tastes" and depends on the effective political power of various groups. But the question of how much hospital or playground facilities can be obtained for a given outlay: *the question of timing construction activity*: the implications of alternative methods of obtaining the revenue needed: the weighing of the indirect effects of the one as against the other project—all these are issues which must be decided upon before an intelligent policy can be undertaken. Decisions of this kind and their execution require careful planning based on economic standards of performance and insight into the effects of revenue-expenditure policies upon the operation of the economy at large.

The potentialities of a public works policy in helping stability are expressed thus by M. H. De Kock, *Central Banking*, pp. 294-97:

> According to the *Directors' Report of the Commonwealth Bank of Australia for* 1937-38, the board is of opinion that expenditure on public works should be relatively low in times of prosperity and that plans should be ready for expansion in times of depression since preparation of plans of useful public works, expenditure on which can be increased or decreased as circumstances require, would help in the timing and regulation of capital expenditure and contribute towards stability of employment.
>
> There is no doubt that a sound public works plan as a compensatory measure in business movements can be of great benefit from the point of view of national economic welfare, since experience has shown that too much cannot be achieved by means of credit

adjustment alone. In the absence of a preconceived policy, Governments and Municipalities are ordinarily inclined to be affected by the same spirit of optimism or pessimism which pervades the individual members of the community, and, therefore, to undertake projects involving heavy capital expenditure when industrialists and other private interests are also engaged in expansionist schemes, and to contemplate curtailing capital outlays when private interests are induced to do so by the shrinkage of profits and demand Apart from the psychological factor of aggregate optimism or aggregate pessimism, as Josiah Stamp calls it, Governments and Municipalities are actually affected by the shrinkage of their revenue in times of business recession and the expansion of their revenue in times of prosperity. Public-works planning thus definitely involves deficit financing and public borrowing during periods of declining business activity and deliberate budgeting for surpluses and redeeming public debt during periods of business expansion.

There are, however, important limitations in connection with the planning of public works as a counteracting factor. In the first place, public authorities have assumed responsibility for a large part of the modern means of transportation and communications and of the supply of water, light, power, etc, all of which are intimately connected with business movements and the increase or decrease in effective demand. While it is possible at times that some of the construction projects may be held up in anticipation of the following slump without unduly hampering business activity, there are others which cannot be postponed for fear of congestion or inability to meet the legitimate requirements of business and other consumers. On the other hand, while some projects may be taken in hand during a business recession in anticipation of an increased demand when business swings upwards again, there are others which it might be dangerous to undertake in advance owing to the inventions being experimented with or to rapid improvements in methods and technique or to likely changes in the character of demand. The most that can be said is that public authorities could with great advantage to their country consider planning their works programme as far as possible with a view to counteracting the extreme tendencies of business activity.

Secondly, it is not an easy matter for public authorities (particularly in democratic states) to maintain a policy of budgeting for surpluses and paying off debt in times of prosperity. With surpluses the control over the growth of public expenditure is considerably weakened in that the State Treasury as well as the treasurers of other public bodies are deprived of their easiest and most effective answer, namely, "lack of funds". At such time the general public is infected with optimism and does not see the necessity of paying off public debt in anticipation of a slump for which they do not prepare themselves. For the carrying out of such a policy, strong Governments and strong treasurers are essential.

Thirdly, when, as a result of postponing works and budgeting for surpluses, public bodies and public funds have surpluses which can no longer be devoted to the redemption of debt owing to the

absence of maturing loans, the trouble is, as Robbins has pointed out, that, if such surpluses are invested in securities or bills, the rate of interest would be too low for a period of prosperity and might exaggerate the upward movement of private business, and that, if the investments are realised on the appearance of depression, the rate would be too high for such circumstances. In this connection *the method recently adopted by Finland, namely, that of investing budget surpluses in gold, foreign exchange and deposits with the central bank, deserves close attention, particularly in those countries where budget surpluses usually coincide with favourable balances of payments. The loss of interest on the holdings of gold and the deposits with the central bank might then be regarded as an insurance against the extremes of booms and depressions.*

While it is admitted that there are limits to the efficacy both of *public works planning* and of *credit control* as means of smoothing out the business cycle, it does not relieve public authorities and central banks of the duty and responsibility of exerting themselves to the utmost to achieve whatever they can in those directions, collectively and individually. *Even allowing for the limitations already referred to, the combination of these two methods could be made to operate with some beneficial results.*

The importance of public-works planning as a supplement to credit control by central banks is derived in particular from the fact that a business recession is accompanied by psychological circulation and the unwillingness of entrepreneurs and investors to take risks. Experience has shown that under such circumstances central banks cannot "pump out" much credit into active use merely by creating conditions of easy money The credit base may at such times be increased by central banking operations without an increase in the effective demand for credit and for goods and services. It is then that spending by public authorities out of hoarded funds or borrowed money, provided the objects of expenditure have a sound basis and have been carefully planned beforehand to avoid wasteful expenditure, can be of great benefit in increasing the effective quantity of money flowing into active use. (Italics are by the authors.)

The wide field covered by the United States Government in the matter of public works is assessable from the manifold kinds of work entrusted by that Government to "guaranteed" corporations partly financed by Government:

1. Federal Reconstruction Corporation;
2. Works Progress Administration (recently liquidated in view of the war boom in employment);
3. Home Mortgage and Home Owners' Loans Corporation;
4. U.S. Housing Authority;
5. Farm Credit Agencies;
6. Commodity Credit Corporation; and
7. Insurance Agencies.

FULL EMPLOYMENT AND SOCIAL STABILITY*

With regard to full employment and stability, Governments can achieve results in the near future in three ways:

(1) by enforcing a banking policy in relation to interest rates including long-term rates, and thus stimulating investment;
(2) by borrowing and investing directly in public works of all kinds, such as roads, etc.; and
(3) by subsidising private investment in a number of ways such as subsidies on wage payment, guarantees of loans, etc.

In the terminology of Lord Keynes, it can lower effective liquidity preference through increasing the quantity of money or raising the marginal efficiency of capital through public investment or through subsidies, or it can do both. There need be no real obstacle here provided radical changes are made in the nature and scope of open market operations. If we remember that Govenments in these days could if they wanted to, take effective steps to prevent the flight of capital abroad, it becomes obvious that there will be no insuperable technical difficulties for an effective short-run policy to deal with a depression.

The relation as among the national income, the quantity of money, the stability of prices and the trend of the wage-unit, are summarised by Lord Keynes thus:

> The long-run relationship between the national income and the quantity of money will depend on liquidity preferences. And the long-run stability or instability of prices will depend on the strength of the upward trend of the wage unit (or, more precisely, of the cost-unit) compared with the rate of increase in the efficiency of the productive system.

The British Government is spending over a hundred and fifty million 'per annum in order to keep the prices of certain essential consumption goods largely entering the demand schedule of the working classes (by encouraging imports and local production through subsidies), but still the demand for a much higher level of production during war time makes the wage earners particularly aggressive in demanding higher wage levels. The difficulties of the administration were recently expressed by the Chancellor of the Exchequer thus:

> I hope we may create conditions which will enable the wages situation to be held about where it now is. It is clear that the persistence of a tendency towards rising wage rates which necessarily increase the costs of production at every stage of production process, would compel the abandonment of stabilisation policy.

* See Appendix B for three articles in the *Economist* on this subject.

Flexible Wages or Flexible Money?

For stabilising real wages, between a flexible wage policy and a flexible money policy, the latter has decided advantages over the former. Lord Keynes enumerates them thus:

> While a flexible wage policy and a flexible money policy come analytically to the same thing inasmuch as they are alternative means of changing the quantity of money in terms of wage-units, in other respects there is of course a world of difference between them. Except in a socialised community where wage policy is settled by decree, there is no means of securing uniform wage reductions for every class of labour. The result can only be brought about by a series of gradual irregular changes, justifiable on no criterion of social justice or economic expediency, and probably completed only after wasteful and disastrous struggles where those in the weakest bargaining position will suffer relatively to the rest. A change in the quantity of money on the other hand, is already within the power of most governments by open market policy or analogous measures. Having regard to human nature and our institutions, ... a method which it is comparatively easy to apply should be deemed preferable to a method which is probably so difficult as to be impracticable. If money wages are inflexible, such changes in prices as occur (*i e.,* apart from administered or monopoly prices which are determined by other considerations besides marginal cost) will mainly correspond to the diminishing marginal productivity of the existing equipment as the output from it is increased. Thus the greatest practicable fairness will be maintained between labour and other factors whose remuneration is contractually fixed in terms of money, particularly the rentier class and persons with fixed salaries on the permanent establishment of a firm, an institution or the State. If important classes are to have their remuneration fixed in terms of money in any case, social justice and social expediency are best served if the remuneration of *all* factors are somewhat inflexible in terms of money. .... The methods of increasing the quantity of money in terms of wage units by decreasing the wage unit increases proportionately the burden of debt; whereas the method of producing the same result by increasing the quantity whilst leaving the wage unit unchanged, has the opposite effect. Having regard to the excessive burden of many types of debt, it can only be an inexperienced person who would prefer the former. *If a sagging rate of interest has to be brought about by a sagging wage level, there is a double drag on the marginal efficiency of capital and a double reason for putting off investment and thus postponing recovery.* (Italics are by the authors.)

The most important repercussions of a reduction in money wages on the propensity to consume for the community as a whole, on the schedule of marginal efficiency of capital and on the rate of interest are analysed thus by Lord Keynes:

1. A reduction of money wages will somewhat reduce prices. It will, therefore, involve some redistribution of real income (*a*) from

wage-earners to other factors entering into marginal prime cost whose remuneration has not been reduced, and (*b*) from entrepreneurs to rentiers to whom a certain income fixed in terms of money has been guaranteed. What will be the effect of this redistribution on the propensity to consume for the community as a whole? This transfer from wage-earners to other factors is likely to diminish the propensity to consume. The effect of the transfer from entrepreneurs to rentiers is more open to doubt. But if rentiers represent on the whole the richer section of the community and those whose standard of life is least flexible, then the effect of this also will be unfavourable. What the net result will be on a balance of considerations, we can only guess Probably it is more likely to be adverse than favourable.

2. If we are dealing with an unclosed system, and the reduction of money wages is a *reduction relatively to money wages abroad* when both are reduced to a common unit, it is evident that the change will be favourable to investment, since it will tend to increase the balance of trade. This assumes, of course, that the advantage is not offset by a change in tariffs, quotas, etc. The greater strength of the traditional belief in the efficacy of a reduction in money wages as a means of increasing employment in Great Britain, as compared with the United States, is probably attributable to the latter being, comparatively with ourselves, a closed system.

3. In the case of an unclosed system, a reduction of money-wages, though it increases the favourable balance of trade, is likely to worsen the terms of trade. Thus there will be a reduction in real incomes, except in the case of the newly employed, which may tend to increase the propensity to consume.

4. If the reduction of money-wages is expected to be a *reduction relatively to money-wages in the future*, the change will be favourable to investment, because as we have seen above, it will increase the marginal efficiency of capital, whilst for the same reason it may be favourable to consumption. If, on the other hand, the reduction leads to the expectation, or even to the serious possibility, of a further wage-reduction in prospect, it will have precisely the opposite effect. For it will diminish the marginal efficiency of capital and will lead to the postponement both of investment and of consumption.

5. The reduction in the wage-bill, accompanied by some reduction in prices and in money-incomes generally, will diminish the need for cash for income and business purposes, and it will therefore reduce *pro tanto* the schedule of liquidity-preference for the community as a whole *Cet par.* this will reduce the rate of interest and thus prove favourable to investment. In this case, however, the effect of expectation concerning the future will be of an opposite tendency to those just considered under 4. For, if wages and prices are expected to rise again later on, the favourable reaction will be much less pronounced in the case of long-term loans than in that of short-term loans. If, moreover, the reduction in wages disturbs political confidence by causing popular discontent, the increase in liquidity-preference due to this cause may more than offset the release of cash from the active circulation.

6. Since a special reduction of money-wages is always advantageous to an individual entrepreneur or industry, a general reduction (though its actual effects are different) may also produce an optimistic tone in the minds of entrepreneurs, which may break through a vicious circle of unduly pessimistic estimates of the marginal efficiency of capital and set things moving again on a more normal basis of expectation. On the other hand, if the workers make the same mistake as their employers about the effects of a general reduction, labour troubles may offset this favourable factor; apart from which since there is, as a rule, no means of securing a simultaneous and equal reduction of money-wages in all industries, it is in the interests of all workers to resist a reduction in their own particular case. In fact, a movement by employers to revise money-wage bargains downward will be much more strongly resisted than a gradual and automatic lowering of real wages as a result of rising prices.

7 On the other hand, the depressing influence on entrepreneurs of their greater burden of debt may partly offset any cheerful reaction from the reduction of wages. Indeed if the fall of wages and prices goes far, the embarrassment of those entrepreneurs who are heavily indebted may soon reach the point of insolvency—with severely adverse effects on investment. Moreover, the effect of the lower price level on the real burden of the National Debt and hence on taxation is likely to prove very adverse to business confidence.

With the help of an efficient central bank, how far a Government can control, direct or divert the national economy is illustrated by the following four tables compiled by G. D. H. Cole:

Economic Activity in Great Britain, 1928–1936

(1928 = 100)

	1929	1930	1931	1932	1933	1934	1935	1936
Industrial Production ..	106	98	89	88	94	105	112	121 (9 months)
Output of Steel ..	113	86	61	62	82	104	116	122 (10 months)
Building Activity, Total	108	111	93	98	124	142	169	174 ,,
Housing Activity ..	110	117	101	117	155	173	195	188 ,,
Rail Traffic, Ton-miles	106	100	92	83	84	91	92	..
Employment ..	102	98	94	94	97	100	104	108 ,,
Net Imports—Value ..	103	89	74	61	58	53	55	73 ,,
Net Exports—Value ..	101	79	54	50	51	55	59	61 ,,
Wholesale Prices ..	97	85	74	72	72	75	76	80 ,,
Cost of Living	99	95	89	86	84	85	86	88 ,,
Weekly Wage-rates ..	100	100	98	96	95	96	97	100 (9 months)
Industrial Share Values	98	79	61	59	73	88	99	113
Note Circulation ..	98	97	96	98	104	107	112	114 (10 months)
Bank Deposits ..	98	101	94	108	106	108	114	119 ,,

Economic Activity in Germany, 1928–1936
(1928 = 100)

	1929	1930	1931	1932	1933	1934	1935	1936 (Oct.)
Industrial Production	101	87	69	54	61	81	95	114
Output of Investment Goods ..	103	84	54	35	45	75	102	124
Output of Consumers' Goods ..	97	91	87	74	80	90	86	102
Employment . . .	101	94	82	72	75	86	91	102
Housing Activity	127	100	46	31	37	52	63	137
Rail Traffic	104	82	69	59	63	76	85	99
Retail Trade Activity . ..	100	92	79	63	60	..	..	..
Net Imports—Value	96	74	48	33	30	32	30	31
Net Exports—Value	111	100	81	50	43	37	38	45
Wholesale Prices	98	89	79	69	67	70	73	74
Cost of Living	102	98	90	80	78	80	81	82
Hourly Wage-rates	105	107	102	86	83	83	83	83
Industrial Share Values	89	71	54	36	46	55	62	74
Note Circulation .. .	100	96	95	73	74	78	86	93
Bank Deposits	108	100	72	69	63	65	61	65

Economic Activity in the United States, 1928–1936
(1928 = 100)

	1929	1930	1931	1932	1933	1934	1935	1936 (Oct.)
Industrial Production	107	87	73	58	68	71	81	98
Output of Investment Goods ..	109	79	52	30	45	50	69	98
Output of Consumers' Goods .	104	91	89	79	87	86	92	100
Building Activity, Total ..	87	68	47	21	19	24	27	40
Housing Activity	69	40	29	10	9	10	17	33
Rail Goods Traffic	103	89	73	54	56	60	61	82
Factory Employment	106	93	78	66	73	84	87	96
Department Store Sales ..	103	94	85	64	62	69	73	83
Net Imports—Value	106	76	51	32	35	40	50	63
Net Exports—Value	103	75	47	31	33	42	45	62
Wholesale Prices	99	89	75	67	68	77	83	84
Cost of Living	100	96	87	79	76	79	81	83
Hourly Earnings	102	102	98	86	85	101	104	107
Weekly Earnings	102	93	81	62	64	73	80	90
Factory Payrolls	107	87	66	46	48	62	70	87
Note Circulation	98	98	114	115	118	118	126	136
Bank Deposits	97	93	81	73	68	79	86	90 (June)

Economic Activity in the U.S.S.R., 1928–1935
(1928 = 100)

	1929	1930	1931	1932	1933	1934	1935
Industrial Production ..	126	164	203	231	250	300	369
Output of Investment Goods ..	131	185	240	279	307	382	481
Output of Consumers' Goods ..	122	147	172	190	200	230	274
Note Circulation	138	191	255	268	314	321	500 (Estd.)
Net Imports—Gold Value ..	92	111	116	74	37	24	25
Net Exports—Gold Value ..	114	128	100	71	61	52	45

PLANNING IN THE U.S.S.R.

G. D. H. Cole makes the following observations on planning in Russia:

They have taken over the pre-revolutionary wage-standards, scaled down the remuneration of the higher salaried workers, scaled up the remuneration of the lower grades, modified wage-scales so as to attract labour into occupations in which there has been a shortage, and aimed at increasing wage-standards in general as fast as resources could be spared from providing for intensive accumulation of capital. They have created as economy in which, thanks to the abolition of surplus value and the destruction of class monopolies of entry into certain occupations, the range of difference in income is far narrower than in capitalist societies. But they have also admitted and even encouraged inequality to any extent to which they have regarded it as requisite for securing the right kinds of labour, or eliciting the best obtainable effort in the service of productive efficiency. Treating these methods of remuneration as merely transitional to a system of distribution based upon needs—to a purely Communist System—they are not perturbed if there can be found for them no logical basis. Are they not a hang-over from the illogicalities and contradictions of the capitalist system; and is it not therefore natural that they should be illogical and self-contradictory?

Wages, determined in this fashion, provide for the Soviet economy a basis of money costs, upon which the pricing of goods is partly founded. But the prices so determined can be raised or lowered to any extent wherever this seems expedient, without the changed relation between costs and selling prices having any necessary effect on the volume of goods which it is decided to produce. The change in prices will be, in fact, the consequence and not the cause of a decision to produce more or less; and it will have no necessary reaction on the wages to be paid to the producers. For, according to the Marxian view, the wages in the transition should depend on the 'value' of the product—that is, on the amount of socially necessary labour involved in producing it—and not upon the price, which bears no fixed proportion to the 'value'.

The Soviet economy has, then, a cost structure and a price structure. But the relationship between these two structures is radically different from that which exists in capitalist societies. The course of production is not determined, save to a quite minor extent, by this relationship. The price structure is to some extent designed, as it must be in any economy which uses the method of offering goods for sale, to ration the goods in accordance with consumers' ability and willingness to pay for them, or in other words to cut off demand at the point at which no further supply is available. But hitherto this has not been at all generally the case; for, of many things more would have been bought at the prevailing price if there had been a larger supply. Prices, however, were not raised so as to equalise supply and demand. Instead, the method of rationing was used in some cases, and in others preference was given in getting supplies to certain types of distributive agency over others, in order that the limited supplies might come into what were regarded as the right

hands. It was, however, from the first clearly the intention to let these forms of rationing lapse as fast as supplies could be made more adequate, and to let prices for most goods come to the levels which will balance demand with supply. Rationing has, in fact, already almost disappeared.

As for costs, their function in the Soviet economy is far less that of governing the volume of output of this or that commodity by their relationship to selling prices than that of providing a test of efficiency by enabling actual to be measured against anticipated costs. Considerations of cost do enter in when output is being planned, but only side by side with other considerations, which may be allowed to prevail against them. *For the aim of Soviet economy is not, like that of capitalist economy, to realise maximum profit, but rather to achieve maximum satisfaction of collectively estimated needs and desires.* The intensity of consumers' demand, as measured by price-offers, is one factor of which account is taken in deciding between alternative forms of production. But it is only one factor; and it does not necessarily carry the day.

In other words, *Soviet planning is based primarily on considerations of collectively estimated social need.* This criterion is relatively easy to apply to most forms of output in a society as poor as Soviet Russia still is, the chief difficulty at this stage being to strike the best balance between current consumption and capital accumulation. It is, however, bound to offer increasing difficulty as the standard of living rises; for, when the elementary needs have been generally satisfied, productive activity must be increasingly occupied with goods and services of which the consumption is a matter of individual choice and preference, and not of general need. As this stage is reached, intelligent planning calls increasingly for a correct anticipation of the consumers' desires, which can be expressed most easily in their willingness to pay for one thing rather than another. In this field in which there is no reason for the State to encourage one kind of consumption against another for social reasons, the obviously correct course is to base prices on costs of production or, where one product offers superior opportunities for a lowering of cost through larger output, to lower its price in order to extend the market for it at the expense of demand for commodities which have to be produced at constant or increasing cost.

A cost structure is therefore vital in all those fields of production which create, not general necessaries, but articles of optional consumption—a consumption which must include the consumption even of general necessaries in amounts beyond the minimum required for a tolerable basic standard of life. Such a cost structure, in a Socialist economy, can have no absolutely objective basis. It can only result from the decisions of the economy concerning the relative levels of remuneration for different types of work and the charges, if any, made or imputed for the use of other factors of production. These decisions, because they determine the cost structure, must influence the decisions of the planners about the quantities of various kinds of goods which are to be produced. In the transitional economy, in which labour costs continue to be the course of production will tend to follow, for all goods above the level of general necessaries, the relation of these socially determined costs to consumers' preparedness

to pay, which is in turn affected by the distribution of incomes. But as the economy approaches more nearly to complete Communism, replacing remuneration for work done by the allocation of incomes according to need, the costs of production melt away, or rather cease to be measurable in terms of the payments made to the individual producers of any particular commodity.

As this happens, money costs actually incurred can, if it seems desirable, be replaced by purely accounting costs imputed by continuing to value the different sorts of labour according to their social productivities. But it seems far more probable that, by the time this position has been reached for any substantial part of the social output, a new standard of non-monetary measurement will have been devised for estimating the relative worthwhileness of different branches of production. This standard will most likely be expressed in terms not of money but of units of real productive energy used up in 'ergs', to borrow a term popularised in America by the technocrats a year or two ago Costs of producing various things will be measured against one another not in money, but in 'ergs'; and the test of worthwhileness will be found in the relationship between 'ergs' consumed and the intensity of the consumers' demands for the various products that it is possible to supply. *Psychologists and physiologists, rather than economists, will provide the standards by which 'ergs' are to be measured for different occupations and types of labour; and consumers' money offers, for as long as such offers survive, will be compared with units of productive energy used up rather than with money costs of production.* (Italics are by the authors.)

Alexander Baykov gives this information and these observations on the Soviet Planning and the economy of the U.S.S.R.:

This system of organisation of internal trade, and the systems of indirect taxation and State loan policy closely connected with it, have enabled the Soviet Government, even under conditions of *great scarcity* of production of consumer goods (scarcity such that equal rationing for the whole population would be possible only at a very low rate), to achieve the following:—

1. The assurance of necessary supplies at a low price to the categories of population directly engaged in carrying out the first Five-Year Plan.

2. The restriction of the consumption of the other sections of the population.

3. The withdrawal of an important part of the purchasing capacity of the population into the State Budget, and the direction of this to the financing of capital construction in the national economy.

4. The regulation of the distribution of the national income and a considerable increase in its capitalisation.

The system was, however, accompanied by many unsatisfactory features:—

1. Internal trade degenerated into a mechanical distribution of available goods without consideration of individual demands.

2. It was one of the causes of the deterioration in quality and choice of goods.

3. The rouble lost the property of a universal unit of value, as its purchasing capacity depended on the category of its owner. This resulted, among other things, in considerably complicating the regulation of wages, because the real wages depended not only on the nominal value, but on the category of the owner. This also complicated the calculation of net prices in the enterprises.

All this led to the liquidation of the rationing system. The transition to the non-rationing system was gradually prepared. The quantity of industrial consumption goods and, to a lesser extent, of food, was gradually increased for sale in 'commercial trade', the price of which was gradually lowered. Parallel with this, the price of rationed goods was gradually increased and the quantity of rationed goods gradually diminished. In this way the difference in price between goods in rationed and in "commercial trade" was evened out and the basis for the introduction of a uniform price was prepared.

The wages of the workers and employees in the categories which were favourably rationed were gradually raised, and in this way their losses due to the diminishing supply of rationed goods were partly made up by increasing the possibility for them to buy in "commercial trade".

This process of transition was ended in 1935 by the liquidation of the rationing system, first for bread, and afterwards for all goods in turn. But after its abolition the essential principles which were worked out during the functioning of the system were preserved—the principles of the regulation of the consumption of the population and capital accumulation in the country by means of the regulation of prices.

In 1935 the following measures were introduced:—

The rationing of bread and "commercial trade" were both liquidated. A *uniform price* for bread, and later for meat and other products, was fixed, which differed only according to different geographical regions. This price was fixed at a level lower than the last existing "commercial price", but higher than the last existing rationed price. This rise in price affected the low-paid category of workers and employees most, but this effect was partly mitigated by simultaneously increasing their wages. The Soviet Government, however, retained the system of differential price regarding the *purchase* of agricultural products after the introduction of the uniform price for foodstuffs and industrial consumption goods. The producers of agricultural products (Sovkhoz, Kolkhoz-Farmers and individual peasants) after the liquidation of the rationing system, continued and continue up to the present, to deliver to the State purchasing organ, the major part of the marketable surplus of agricultural products at low fixed prices. The remaining part of the marketable surplus of agricultural products is still partly purchased by the State at a somewhat higher price—so called "decentralised deliveries" (this price was from 10 to 30 per cent. higher than the price of obligatory deliveries)—and partly sold by the producer at the free market prices on the local Kolkhoz market. The disparity between the prices at which the State purchases and sells the agricultural products is still very great *By means of the turnover tax, this "monopoly profit" has accumulated in the State Budget.* The following figures show

the changes which have occurred in the State Budget during the transition from the rationing system to the unrationed trade.

	Milliard Roubles		1935 (+ or —) compared with 1934
	1934	1935	
Total revenue of State Budget	50·816	67·428	+16·612
From which :			
Revenue from turnover tax	37·675	52·167	+14·492
In which :			
Turnover tax from heavy industry ..	4·063	4·600	+ 0·536
Do. light industry	3·933	2·495	— 1·438
Do. timber and lumber industry	0·396	0·183	— 0·212
Do. food industry	13·738	13·549	— 0·189
Do. Commissariat for Delivery CNK, S.S.S.R.* (from sale of agricultural products to population)	4·340	24·000	+19·660
Do. commercial trade ..	8·362	5·450	— 2·912
Do. co-operative trade ..	1·567	1·321	— 0·247

The rise in the price of bread and other agricultural products during the liquidation of the rationing system resulted in an enormous increase in the revenue from turnover tax from this trade. This increase, as is seen above, amounts to more than the increase in the total revenue, and covers the losses in revenue from turnover tax from the other sources.

The decrease in the revenue from turnover tax from other sources was due, not to a decrease in the turnover in these branches of trade, but to the rise in the cost price, due to the rise in nominal wages, the rise in the price of industrial crops and other increased expenses connected with the abolition of rationing. Consequently, even from the largest turnover these branches were able to pay only a small amount of turnover tax.†

* Soviet Narodnykh Commissarov, U.S.S.R. (Council of the Peoples' Commissars of the U.S.S.R.).

† The average rate of turnover tax from different sources may be seen from the following figures for 1935:—

	Milliard Roubles		
	Taxable Turnover	Amount of Turnover Tax	Percentage
Total turnover from retail trade ..	108·547	52·167	48·0
From which :			
Heavy industry	19·755	5·272	26·6
Light ,, ...	12·403	2·518	20·3
Timber and lumber	2·286	0·218	9·5
Food industry	19·548	9·734	50·0
Trade in agricultural products ..	25·030	20·729	82·8
Spirits	7·302	5·998	82·1
Co-operative	8·795	1·364	15·5

Thus, since the liquidation of the rationing system, the following system of prices still exists in the U.S S.R.:—

(1) Lowest price, *i.e.,* delivery price of a fixed amount of agricultural products, which has the character of traxation in kind.
(2) A somewhat higher price, *i.e.,* the "decentralised purchase" of agricultural products by the State organs from the producers
(3) A much higher price, *i e.,* the price at which agricultural products and industrial consumption goods are sold to the population.
(4) Prices approaching the level of (3), *i e.,* the free prices on the local Kolkhoz market, in which peasants are permitted to sell the remaining marketable products after fulfilment of their obligatory deliveries.

This system of prices, closely connected with the turnover tax, enables the State to continue to control the consumption of the population without resorting to rationing, and to force the population to "save" part of the national income for further investment in the national economy.

The principles of the mechanism of this regulation through price are very simple. Low prices for the chief mass of the marketable agricultural products purchased by the State from the producers keep the purchasing fund of the rural population at a low level. This is necessary because the production of industrial consumption goods still lags behind the rise in the total wage-bill of workers and employees, due to the continuous investment in heavy industry, the increase in its production and, during the last years, to the greater expenditure of the war industry The prices of all consumer commodities are regulated in accordance with the changes in the purchasing capacity of the population and with the changes in production of these commodities When, for some consideration or other, prices are raised without any change in the cost price, the increased "profit" is drawn automatically into the State Budget by raising the rate of turnover tax. The lowering of prices can be achieved either by reducing the cost price or by reducing the rate of turnover tax *As the turnover tax is included in the price of all commodities, this tax procures the basic revenue of the State Budget, and is one of the methods of compulsory "saving" of the population. Most of the expenditure for investment, as in the period of rationing, is still financed by the revenue from this tax.*

The main events in the economics of the U.S.S.R during the period 1932-40 are evident from figures given below.

From those figures it is evident that the main processes in the national economy were interconnected in the same way as during the rationing period. Unfortunately, the index of prices has not been published in Soviet statistics since 1931, while some data are published in the current prices and others in the so-called prices of the 1926-27 value. Since during this period big changes occurred in the level of prices, these figures do not represent the real dynamic. Especially questionable are the figures concerning the rise in the national income, in spite of the fact that they are calculated on the

basis of the 1926-27 prices, because its dynamic is not confirmed by the other index in the development of the national economy.

From these figures, however, it is evident that in the period following the abolition of the rationing system the greater part of the purchasing capacity of the population was drawn into the State Budget by means of the turnover tax and State loans, and from the State Budget was directed into investment in the national economy and into the building up of the defences of the country.

The Soviet Government, by means of the system outlined above—regulation of price, indirect taxation and State loans—still continues, as in the period of rationing, to control the consumption of the population, and to a great extent, the disposal of the national income. But in this period the investment in the national economy accomplished in the period of rationing and current investment resulted, not only in the development of production of heavy industry and in the strengthening of the defences of the country, but also in a rise in production of agricultural products and industrial consumption goods, and in a rise in the standard of living.

The effect of control measures must be measured in the light of what Germany expected to achieve through them, not in terms of economic criteria requiring an initial assumption of perfect or near perfect international economic equilibrium. If the goal selected by Germany was full employment in an economy isolated from international disturbances, effectiveness of control measures in accomplishing that end, rather than the economic effects, should be measured. Autarchy, coupled with a policy of public works and rearmament, brought with it the "blessing of voluntary scarcity", namely, full employment, rather than the "scourge of plenty", market surfeit and idleness. Furthermore, the successive intensification of measures of control precluded the necessity of violent adjustment in the transition to a war economy in the fall of 1939. The German economy had become an effective instrument for total war. The standard of living realized under autarchy, though short of a standard that might have been realized under full participation in a world economy, was not a starvation standard, despite the shortage of particular items such as fats, oils, butter, and eggs. Autarchy as a national philosophy was not the exclusive invention of the National Socialists.

If within Germany the control measures facilitated credit inflation, public works, rearmament, full employment, and general business recovery and in the process rendered the standard of living less high than it would have been under full and active participation in the world economy, what effects did the measures of control have upon the world economy? Among consequences claimed are the breaking of international financial faith, reduction of volume and distortion of the direction of world trade, the destruction or disturbance of industries contributing to world trade, establishment of an economic liaison with the Balkans so strong as to border on a political liaison, and the disturbance of world peace through the creation of a military machine capable of challenging the Allies.

Still, it must be remembered that German controls over international economic relations were in many instances, consequences, rather than causes of general international disequilibria. Restrictions in

		1932	1933	1934	1935	1936	1937	1938	1939	1940	Plan for 1941
National income	(milliard rbls., 1926–27 value) ..	45·5	48·5	55·8	66 5	86·0	96·3	105·0	*	125 5	*
State Budget—											
(a) Revenue	,, .	30·6	40·2	50·8	67·5	83·8	96·6	127·5	155·9	178·1	216·0
Of which :											
(i) Turnover tax	,, .	17 7	27·0	37·7	52·2	65·8	75·9	80·4	92·4	105·8	124·5
(ii) State Loans	,, ..	3·9	3·1	3·4	4·0	4·8	4·9	7·6	9·9	11·4	13·2
(b) Expenditure	,, ..	30·3	40·0	49 2	64·4	83·3	96·2	124·0	153·1	173·3	216·0
Of which:											
(i) Financing of national economy	,, .	23·7	25·1	32·3	37·2	41·9	43·4	51·7	59·3	57·1	72·9
(ii) Defence	,, .	1·3	1·4	5 0	8·2	14·9	17·5	23·2	40 9	56·1	70·9
Gross retail turnover	,, ..	40·3	49 8	61·8	80·7	106 8	125·9	138 6	163·5	174·5	197·0
Gross output of large-scale industry	,, .	36·8	40·7	47·6	66 8	85·8	95·5	106·1	123·9	137·5	162·0
Production of consumption goods—											
Cotton textiles	(million metres) ..	2417	2732	2733	2640	3270	3447	3491	*	*	*
Woollen textiles	,, ..	88·7	93 4	82·7	91·9	109·0	110·8	114·0	*	*	*
Raw sugar	(thousand tons) ..	827·0	995	1403	2031	2040	2421	2519	*	*	*
Production of coal	(million tons) ..	64 7	76·2	93·9	108·9	126·0	127 3	132·9	145·9	164·6	191 0
Oil and gas	,, ..	22·3	22·5	25·6	26·8	29·2	30·5	32·2	34·2	38·0	*
Pig iron	,, ..	6·2	7·1	10·4	12·5	14·4	14·5	14·6	*	14·9	18·0
Steel	,, ..	5·9	6·9	9·7	12·6	16·3	17 7	18·0	*	18·4	22·4
Rolled steel	,, .	4·3	4·9	6·7	9·0	11·9	13·0	13·3	*	13·4	15·8
Gross output of Agriculture	(milliard rbls., 1926–27 value) .	13·1	14·0	14·8	16·1	15·8	19·7	20·1	*	*	*
Gross yield of crops	(million quintals) ..	698·7	898·0	884·0	911·0	827·3	1202·9	949 9	1118	1200	*
Number of cattle	(millions) ..	40·7	38·4	42·4	49 2	56·7	67 0	63·2	64·6	*	*
Number of pigs	,, ..	11·6	12·1	17·4	22·5	30·5	22·8	30 0	32·5	*	*
Number of sheep and goats	,, ..	52·1	50·2	51·9	61·1	73·7	81·5	102 5	111·6	*	*
Number of workers and salary-earners	,, ..	22·9	22·3	23·7	24·8	25·8	27·0	27·8	*	30·4	31·6
Yearly average wages	(mill. rbls.) ..	1427	1566	1858	2269	2776	3093	3467	*	**	*

* Figures are not available.

Indices of Economic Conditions in Germany, 1924–40

		Imports Million RM.	Exports Million RM.	Production Index Base=1928	Shares Index Base=1924–26	Wholesale prices Base=1913	Unemployment (000 omitted)	Cost of Living Base=1913–14	Gold and Devisen Million RM.
1924	Average	757	546	69·0	97·7	127·6	701	127·6	..
1925	Average	1,030	774	81·3	93·34	141·8	658	139·8	1,475
1926	Average	830	868	79·6	108·96	134·4	2,028	141·2	2,001
1927	Average	1,186	900	102·6	158·0	137·6	1,336	147·6	2,130
1928	Average	1,167	1,023	100·0	148·41	140·0	1,376	151·7	2,490
1929	Average	1,121	1,124	101·4	133·88	137·2	1,918	154·0	2,601
1930	January	1,305	1,092	93·4	119·99	132·3	3,218	152·4	2,782
	February	982	1,026	91·7	120·58	129·3	3,336	151·2	2,872
	March	884	1,104	94·3	119·03	126·4	3,041	149·5	2,990
	April	889	977	94·0	122·18	126·7	2,787	148·2	2,996
	May	830	1,096	91·5	121·68	125·7	2,635	147·6	3,006
	June	814	910	87·7	116·44	124·5	2,641	148·2	3,144
	July	909	951	81·8	110·02	125·1	2,765	149·8	2,974
	August	795	971	83·7	103·29	124·29	2,883	149·9	3,050
	September	736	1,001	82·7	102·26	122·8	3,004	147·7	2,945
	October	834	1,073	84·5	95·78	120·2	3,252	146·2	2,506
	November	734	931	82·0	92·29	120·1	3,699	144·6	2,707
	December	681	903	78·3	87·30	117·8	4,384	142·6	2,825
1931	January	715	775	66·2	81·75	115·2	4,887	141·1	2,588
	February	620	778	66·2	85·55	114·0	4,972	139·4	2,534
	March	584	867	70·0	91·08	113·9	4,744	138·1	2,589
	April	679	818	74·3	92·43	113·7	4,358	137·4	2,584
	May	599	783	73·8	83·02	113·3	4,053	137·0	2,647
	June	607	747	75·0	75·90	112·3	3,954	137·4	1,968
	July	563	827	73·8	76·82	117·7	3,990	137·2	1,685
	August	454	803	69·8	..	110·2	4,215	135·0	1,759
	September	448	835	68·2	59·96	108·6	4,355	134·4	1,723
	October	483	879	63·9	..	107·1	4,623	133·5	1,373
	November	485	749	62·6	..	106·6	5,060	132·4	1,273
	December	491	738	58·4	..	103·7	5,668	130·8	1,235

1932	January	440	542	52·4	..	100·0	6,042	125·1	1,189
	February	441	538	52·9	..	99·8	6,128	122·6	1,149
	March .. .	364	527	53·5	..	99·8	6,034	122·2	1,097
	April	427	481	53·8	49·64	98·4	5,739	121·2	1,070
	May	351	447	55·3	50·59	97·2	5,583	120·6	1,063
	June .. .	364	454	53·8	49·70	96·2	5,476	120·5	1,040
	July	366	431	51·5	49·92	95·9	5,392	120·7	979
	August	331	428	50·8	52·22	95·4	5,224	119·5	981
	September	360	444	53·8	58·98	95·1	5,103	119·0	1,001
	October . ..	398	482	56·6	57·19	94·3	5,109	118·7	1,008
	November	393	475	58·2	58·22	93·9	5,355	118·5	1,008
	December	423	491	55·8	61·75	92·4	5,773	118·2	991
1933	January .. .	368	390	52·7	64·57	91·0	6,014	117·2	995
	February	347	374	54·2	64·75	91·2	6,001	116·5	994
	March	362	426	57·1	70·30	91·1	5,599	116·1	920
	April	321	382	58·5	72·79	90·7	5,331	115·9	650
	May	333	422	59·0	73·26	91·9	5,039	117·6	544
	June	357	384	60·9	71·57	92·9	4,857	118·0	414
	July	360	385	61·1	68·46	93·9	4,464	118·0	377
	August	347	413	62·9	66·19	94·2	4,124	117·8	429
	September	337	432	65·3	62·48	94·9	3,849	118·5	474
	October	347	445	67·8	62·11	95·7	3,745	119·4	485
	November	351	394	69·0	63·98	96·0	3,715	120·2	482
	December	374	424	68·8	67·36	96·2	4,059	120·6	473
1934	January .. .	372	350	71·0	70·17	69·3	3,773	120·4	465
	February	378	343	75·0	73·88	96·2	3,373	120·2	415
	March	398	401	80·5	76·98	95·9	2,798	119·9	349
	April	398	316	79·4	75·02	95·8	2,609	119·8	301
	May	380	337	81·2	73·27	96·2	2,529	119·6	235
	June	375	339	81·2	76·16	97·2	2,481	120·5	167
	July	363	321	82·4	77·74	98·9	2,426	121·8	151
	August	342	334	81·5	80·00	100·1	2,398	122·3	152
	September . ..	352	350	84·9	83·12	100·4	2,282	121·6	152
	October	349	366	84·7	83·22	101·0	2,268	122·0	158
	November .. .	346	358	84·7	80·37	101·2	2,353	122·3	156
	December	399	354	84·3	79·80	101·0	2,605	122·2	157

		Imports Million RM.	Exports Million RM.	Production Index Base=1928	Shares Index Base=1924–26	Wholesale Prices Base=1913	Umneploy-ment (000 omitted)	Cost of Living Base=1913–14	Gold and Devisen Million RM.
1935	January	404	299	85·0	83·50	101·1	2,974	122·4	158
	February	359	302	86·0	86·40	100·9	2,764	122 5	158
	March	353	365	92·0	87·8	100·7	2,402	122·2	158
	April	359	340	94·7	89·3	100·8	2,233	122·3	159
	May	333	337	96·5	91·0	100·8	2,019	122·8	160
	June	318	318	93·7	93·7	101·2	1,877	123·0	163
	July	330	359	95·6	94·7	101·8	1,754	124·3	173
	August	318	368	96·5	95·5	102·4	1,706	124·5	173
	September	318	373	103·4	92·7	102·3	1,714	123·4	173
	October	336	391	102·1	91·0	102·8	1,829	122·8	166
	November	346	397	101·1	89·5	103·1	1,984	122·9	167
	December	373	416	97·5	89·3	103·4	2,508	123·4	161
1936	January	363	382	93·5	91·8	103·6	2,520	124·3	82*
	February	334	374	94·9	93·8	103·6	2,515	124·3	77
	March	356	379	101·4	93·3	103·6	1,937	124·2	77
	April	361	366	105·7	96·2	103·7	1,763	124·3	75
	May	337	372	109·0	99·3	103·8	1,491	124·3	75
	June	360	371	109·5	101·6	104·0	1,315	124·5	77
	July	346	395	111·1	103·1	104·2	1,170	125·3	77
	August	346	409	111·4	101·8	104·6	1,098	125·4	75
	September	336	412	114·2	100·1	104·4	1,035	124·4	69
	October	356	432	113·8	106·0	104·3	1,076	124·4	70
	November	356	422	113·7	106·6	104·4	1,197	124·3	72
	December	367	457	..	105·4	105·0	1,479	124·3	72
1937	January	337	416	107·0	106·6	105·3	1,853	124·5	73
	February	347	407	108·1	108·1	105·5	1,611	124·8	73
	March	409	463	113·5	109·3	106·1	1,245	125·0	73
	April	481	493	118·5	110·6	105·8	961	125·1	74
	May	448	457	119·6	111·8	105·9	776	125·1	74
	June	505	481	119 1	112·8	106·1	649	125·3	75
	July	500	530	118·9	114·6	106·4	563	126·2	75

	August	482	541	121·1	115·7	106·7	509	126·0	76
	September	462	494	124·9	114·8	106·2	469	125·1	76
	October	485	544	125·6	113·2	105·9	502	124·8	76
	November	483	533	127·2	112·0	105·5	573	124·9	76
	December	531	552	121·7	111·3	105·5	995	124·8	76
1938	January	479	445	116·2	113·8	105·6	1,052	124·9	76
	February	449	427	121·0	113·6	105·7	946	125·2	76
	March	455	467	124·6	113·9	105·8	508	125·5	76
	April	477[1]	454[1]	125·6[2]	114·8	105·6	821[5]	125·6	76
	May . ..	518	469	128·8	112·7	105·4	689	125·9	76
	June	486	441	126·9	110·5	105·6	567	126·0	77
	July	472	474	128·7	107·9	105·6	369	126·8	76
	August	510	446	129·4	102·2	105·9	231	126·5	76
	September	493	442	133·3	103·2	105·9	256	225·2	77
	October	528	490	133·5	107·5	105·7	271	124·9	76
	November	524[3]	455[3]	137 1	106·0	106 1	..	125·0	77
	December	542	504	130·9	103 1	106·3	816[6]	125·3	76
1939	January	472	441	130·2	103·9	106·5	639	125·8	76
	February	472	411	132·6	104·8	106·5	451	125·7	76
	March	504	481	135·2	102·9	106·6	322	126 0	77
	April .. .	403	437	136·1	103·5	106·4	216	125·9	77
	May	440[4]	485[4]	138·9	102·6	106·5	152	126·1	77
	June	443	538	135·9	100·8	106·8	107	126·5	77
	July	439	501	..	100·0	107 0	74	127·3	77
	August	..	..	.	101·6	107·1	..	..	77
	September	..	..	..	101·1	106·9	..	..	77
	October	..	..	..	100·6	107·1	..	..	77
	November	..	..	..	103·0	107·4	126	..	77
	December	..	..	..	106·6	107·6	128	..	78

* The right of the Four Great Banks in Germany to issue notes expired at the end of December, 1935. Reserve figures from January, 1936 on are those of the Reichsbank alone

[1] Excluding former trade with Austria after March, 1938.
[2] Austrian production included after March, 1939.
[3] Trade with Sudetenland excluded after October, 1938.
[4] Trade with Bohemia and Moravia excluded after April, 1939.
[5] Austrian unemployment included in total after March, 1938.
[6] Sudeten unemployment included in total after November, 1938.

other countries had preceded those in Germany, and had necessitated German restrictions. Germany was not so much the source of international economic disturbances as the medium through which shocks were transmitted to other countries.

In certain respects the control measures were introduced to meet an emergency. To that extent they were defensible. However, no emergency is removed until the factors giving rise to it have been corrected. It is impossible to cure a disease by dosing the symptoms. A sounder method is to get at the basic difficulty. The basic difficulty was in no small degree due to the problem of international indebtedness and to the factors which prevented the elimination of that indebtedness—namely, restrictions on the free movements of goods and services. It is not unnatural that there should be international debts, particularly if they arise in the natural course of world economic development as a consequence of the flow of capital to those points where capital is most productive. However, it is unnatural that a country whose economic structure has been adjusted to a given capital-ownership relationship with the rest of the world should be stripped suddenly of part of its former possessions of land and capital and then forced to make still further contributions out of current income in the form of reparations. It need not be implied that the Peace Treaty alone occasioned a shift in international indebtedness; for the war, too, made debtors of former creditors, and creditors of former debtors, almost overnight.

Were it possible to retrace steps and rectify some of the politico-economic blunders of the decades since Versailles, some of the basic problems might be reached, the symptoms of which the countries of the world have attempted to solve through restrictions upon the free movements of goods and services between nations. It is paradoxical that nations attempt to relieve international economic disturbances, caused in part by the restriction on the free movement of goods and services, by still further measures of control over international economic relations, that nations seek through war the economic security which war inevitably destroys.

The Roosevelt Plan

Indian Finance puts the latest phases of American planning thus:—

To break a war boom and avoid a post-war slump is the avowed purpose of the President. The seven-point programme starts with taxation to keep down profits. The Congressional proposal to limit dividends is not lost sight of in a demand for a stiff E.P.T. Wholesale and retail prices alike are to be controlled by the fixation of maxima. The stabilisation of wages is the third feature, and the fourth is the policy of stabilising farm prices. The fifth is to encourage savings, to make all citizens buy war bonds. The sixth point in the Presidential programme is to secure rationing of all essential commodities of which there is a shortage. The last is in the nature of a financial accessory, to discourage credit sales and instalment buying, and to encourage the paying off of debt, mortgage and other obligations.

The main object is not to lower the standard of living in the U.S.A. but to bring down the cost of living. The President has confessed his aim, and it will not make him unpopular with his own party. He has also indicated that war and welfare are incompatible, and that total war demands total sacrifice. The reason for Mr. Roosevelt's fear is the present rate of war expenditure. In his Message to Congress the estimate of war expenditure is 100 million dollars per diem, and the President expects that before the end of 1942 the rate of expenditure will be doubled It is imperative, in the President's view, to hold down the cost of living because of the inflation threat latent in the estimate of an enormous budget in the year beginning July 1st, 1942.

He has asked for an all-embracing programme. As anticipated last week in Washington message, the President thinks a net income of 25,000 dollars good enough for any citizen. His own salary will yield only that, and that is why taxation to skim off profits and wages is vigorously recommended Farmers will get their ideal of parity prices, but nothing more: the President does not like 110 per cent. The President has said openly that the war cannot be fought on the spend-as-usual principle. Rationing is deemed logical Wage-freezing will not be arbitrary; for the Labour Board will settle the business. What Britain decided upon last July as regards wages in wartime after trying the game of running with the hare and hunting with the hounds, has been accepted in finality.

There is another important point in the Administration's programme The sanction of Congress is asked, and President Roosevelt has announced his intention of getting necessary legislation enacted, should the cost of living go up further. The machinery, like the method, will be democratic. Departmental officials will have nothing to do with it, and *ad hoc* agencies will be in the background. The President has obviously learnt by his mistakes of the past. The measures are to take effect from this week. What will be the effect on world prices? Quite beneficial, for it must be confessed that prices have risen so high that a drop would be welcomed The fixation of ceiling prices for exports on a cost plus basis as from April 30th, 1942, means that home costs will regulate prices, not the foreign customers' ability to pay. Ceilings have been fixed on the basis of 1940 premium. And it must be confessed that only a year after he took charge of price control and supplies, Mr. Henderson has convinced the Administration that the war against inflation must be waged with courage and resolution. Price control has, however, been a plank of the President's policy since last summer when the defence programme was altered rapidly and lease-lend entailed bigger spending by the Federal Government. Essentially the situation underwent a change in December when the U.S.A. joined the war. Prices of commodities including grain and livestock rose rapidly in December. The advance in prices stimulated retail trade which had also the benefit of advance Christmas buying. Though Federal regulation limited the advance in prices in several cases the general retail price-level was 18 per cent. above that of December 1940. Additional measures to prevent advances in prices in wholesale prices were soon announced for wool and shellac and for such imported foods as cocoa, coffee, pepper and fats and oils.

The rise in prices was sustained by free spending on the part of the public. The volume of retail trade rose in November, though not so much as in December. Rail traffic was larger and the rise in industrial output to 168 per cent. of the 1935-39 average in the U.S.A. encouraged optimism. Actually a slight fall in shop sales was recorded towards the middle of December, but as the F.R.B.'s summary report notes; in the first half of January sales at department stores showed less than the customary sharp reduction from the Christmas buying peak and were at a level substantially higher in comparison with a year ago than that prevailing in other recent months. But this had little material effect on commodity prices. Wholesale prices increased sharply when the U.S.A. entered the war and then showed little change during the latter half of December. In the first half of January, prices again advanced, the principal increases being in agricultural commodities and chemicals. Price control was extended to cover many products including consumers' goods. Certain of the measures like those relating to rubber and wool products were associated with new production restrictions. In this period, also, says the semi-official survey, there were advances in a number of price ceilings.

The situation in the first six weeks of war gives a clue to what has been happening since and indicates why sharp remedies are applied. In December expenditure of 2 billion dollars a month would have sufficed. The latest estimate is one of 3 billion dollars per month and 6 billion dollars by the end of 1942. The realisation that all this must come from borrowing because it is not possible to add overmuch it the tax revenues of 7.6 billion dollars per annum, may condition attempts to stimulate savings. As was pointed out in a critical estimate of general prospects in the third year in a war economy, there is a problem of control, as there is one of distribution. There is a transfer problem, also in a war economy, and its elimination is obviously the first object of the seven-point programme. Reduced civilian spending is desired. The limitations of previous control measures indicated to the Federal Government that the war production and full outlay mean a curtailment of civilian production. A ban until February 2 was placed on the retail sale of passenger cars and trucks, pending the establishment of a rationing system. The production of cars was increased in January merely to use up semi-finished supplies, but meanwhile, the claims of war industries were examined, and limitation of supplies to non-essential consumers became the rule in January. The more extended rationing approved by the President, and heralded by petrol rationing, is different from the control orders applied to aluminium, lead, mercury, nickel, tin, wool, rubber and latex after the entry into the war. Non-defence industries were not permitted to develop output and the diversion of materials favoured industries helping in the war effort. That is why industries producing durable consumers' goods, *e.g.*, automobiles, reported a fall in output after war broke out, while shipbuilding, aircraft, etc., boomed. With steel output in 1941 equal to 97½ per cent. of rated capacity, there was no major production problem, but the cost of living index (source: Bureau of Labour Statistics) rose by one point, in December to stand at 111 as against 101 in December, 1940. The level of wages was higher since

the November index was 127 as against 116 in December 1940. The story of higher prices and wages in January illustrates the ineffectiveness of holding up prices. Wholesale prices rose to a new height since 1929 and the percentile rise, from December 27 up to January 17, was 2 per cent. While farm prices alone showed an average rise of 5 per cent., cotton was over 20 cents per lb, the highest price in twelve years. Price ceilings for textiles had to be revised in January and the Agricultural Department, anxious for its production drive, promised better prices for farmers, particularly oil-bearing crops. No restrictions were placed on cane and sugar acreage and the ceilings for both raw and refined sugar were raised, but it was made known that allotments of sugar to wholesalers, jobbers and industries would be 80 per cent. of the February 1941 quantity. So rationing appeared in a familiar form. In response to a desire for higher output the price of lead was raised from 5.85 cents per lb. to 6.5 cents in New York The Metals Reserve Company offered higher prices for copper, lead and zinc, for production in excess of the 1941 tonnage. Higher freight costs accounted for the upward revision of prices for petroleum products. The price situation obtaining in January may be summed up by saying that as compared with August 26, 1939, U S. commodity prices were 27.7 per cent. higher, the increase being greatest under raw materials. Clearly the seeds of trouble were present and even the promise of labour leaders to work against the Axis was not enough to curb the urge to spend manifest among wage-earners.

The provisions of the Anti-Inflation Act of October last were foreshadowed by President Roosevelt in the following Message to the Congress, dated September 7, 1942:

Four months ago on April 27, 1942, I laid before Congress a seven-point national economic policy designed to stabilise the domestic economy of the United States for the period of the war The objective of the programme was to prevent any substantial further rise in the cost of living. It is not necessary for me to enumerate again the disastrous results of a runaway cost of living, disastrous to all of us—farmers, labourers, businessmen, the nation itself. When the cost of living spirals upward everybody becomes poorer because the money he had and the money he earns buys so much less. At the same time the cost of war paid ultimately from the taxes of the people is needlessly increased by many billions of dollars. The national debt at the end of the war would become unnecessarily greater. Indeed, the prevention of a spiralling domestic economy is a vital part of the winning of war itself.

Our experience has proved that a general control of prices is possible only if the control is all inclusive. Our entire effort to hold the cost of living at this present level is now being sapped and underminend by further increases in farm prices, in wages and by the ever-continuing pressure of prices, resulting from rising purchasing power Annual wage and salary bills have increased from 43,700 million dollars in 1939 to an estimated 75,000 million dollars in 1942, representing an increase of 78 per cent. By constantly

increasing employment and overtime wage rate, increases in the annual wage salary bill have been rising by over 1,000 million dollars monthly. It is impossible for the cost of living to be stabilised while farm prices continue to rise. It is impossible to keep any prices stable if the wage rates continue to increase. Even if a stabilisation of all prices and wages at the present levels is achieved there would still remain great upward pressure on the cost of living created by the vast amount of new purchasing power. The national income has been increasing since January 1941, at the average rate of two per cent. monthly. This purchasing power now exceeds by an estimated twenty billions the amount of goods available for purchase this year. The great demand compared with the small supply threatens to disrupt the whole price structure. It is still the Government policy to encourage free collective bargaining between employers and workers and that policy will continue. The cost of all food used by wage-earners, controlled and uncontrolled, has been going up at the rate of 1¼ per cent. monthly since the price ceilings were set in May 1942. If this continues the increased cost of food to wage-earners next May would be over 15 per cent. above the level existing when the ceilings were set. This would be equal to a 15 per cent. sales tax on wage-earners' food. This drastic increase has been caused chiefly by the fact that a number of food commodities are exempt under the existing law. In exempt commodities the price increases are even more startling. The cost of such food has been rising 3¼ per cent. monthly since May 1, 1942.

Farm prices have risen 85 per cent. since September, 1939, and the prices are continuing to rise. The rise of uncontrolled food prices since May 18, 1942, when price regulation became effective, has been so drastic as to constitute an immediate threat to the entire price structure. The greatest danger is in dairy products. Congress must realise that unless the control over farm prices is strengthened, we must abandon the efforts to stabilise wages and the cost of living. If that occurs, workers and farmers alike will suffer a reduction in real income and bring upon themselves the unparalleled disaster of unchecked inflation. What is needed is an overall stabilisation in prices, salaries, wages and profits. That is necessary to the continued production of planes, tanks, ships and guns at the present constantly increasing rate. We cannot hold the cost of food and clothing to the present level beyond October 1. Therefore, I ask Congress to pass legislation authorising the President to stabilise the cost of living, including the prices of all farm commodities, to hold farm prices at parity or at the levels of recent date I ask Congress to take this action by October 1. Inaction on your part will leave me with an inescapable responsibility to our people to ensure that the war effort is no longer imperilled by the threat of economic chaos. If Congress should fail to act adequately I shall accept responsibility and will act.

At the same time farm prices are stabilised, wages can and will be stabilised. This also I will do. The President has powers under the Constitution and under Congressional acts to take measures necessary to avert disaster which would interfere with winning the war. I have given the most thoughtful consideration to meeting this issue

without further reference to Congress. But I have determined on this vital matter to consult with Congress. This is consistent with my deep and unalterable devotion to democracy. The President's responsibilities in war are very grave This total war, with our fighting fronts all over the world, makes the use of executive power far more essential than in any previous war. I cannot tell what powers may have to be exercised to win the war. I shall not hesitate to use every power vested in me to accomplish the defeat of our enemies. We are fighting a war of survival. Nothing can yield to the overall necessity of winning and winning will be imperilled by runaway domestic economy.

One of the most powerful weapons in our fight to stabilise living costs is taxation, because it reduces competition for goods. Stabilisation cannot be maintained without heavy taxes on all except very low incomes. We must eliminate tax exemption of interest on State and local securities and other special privileges or loopholes. The tax rate should make a top limit on individuals' incomes after payment of taxes of approximately twenty-five thousand dollars, giving assurances that the sacrifices required by war are equitably shared. Next to military and naval victory, a victory on the economic front is paramount Without it we would be allowing our young men now risking their lives in air, on land and sea to return to an economic mess of our own making. The least we at home can do for them is to make sure that our economy is one to which they can return with confidence and security

The *Hindu* discussed two of the controversial questions involved, in the following passage, in its issue dated October 6, 1942:—

By far the most controversial of these items were two. One concerned, wage stabilisation; and the other, farm prices. In regard to restrictions on increase of wages, the Administration has, for very good reasons in our opinion, been very cautious so much so that it has invited on itself criticisms such as these: "The Administration has always been pro-labour Because the labour unions are in the saddle ... Roosevelt has'nt got the nerve to do it. ... The politicians are afraid to legislate against the labour organisations." The accusations are unfair. Labour seldom gets a chance to enjoy the good things of life; and when it does get a chance, it is not right for the State to step in and prevent the exercise of its rights unless the clearest necessity is proved. The case for labour has been put thus: "This is a democratic country and a man should be paid what he is worth. Some wages are too low now. .. . Big corporations would take advantage of labour. ..... Let the working man have a break. ..... This would take away the rights of labour." As against these arguments, the Administration had to take note of the other which has been put as follows: "Wages and prices are dependent on each other, and you can't freeze one without the other. . Prices are determined to a large extent by wages. If one thing is stabilised all must be ... The working man will be robbed of his gains if we don't control inflation." If the President has yielded to the demand for fixation of wages, he has seen to it and the levels at which wages are stabilised are such as will on the whole be fair to the worker. In the case

of the farmers also, the President has agreed to fix prices only on condition that the level at which the price is fixed is fair to the producer. The Administration's price policy has always been influenced by the doctrine that a sound price structure requires both "a 'floor' and a 'ceiling' ". We may, therefore, take it that in the operation of the price rules and regulations, care will be taken to ensure that the producer gets a fair price for his goods. What is aimed at is the general welfare of the community as a whole and this end is best attained by avoiding penalising any section if it.

THE BEVERIDGE SECURITY PLAN*

The quotations below respectively from *Indian Finance* and the *Hindu* reveal the great anxiety in the mind of the authorities in Britain for social welfare, while complacency rules the psychology of authorities in India:—

Sir William Beveridge has explained his plan in a recent broadcast. The aim is social security as laid down in the Atlantic Charter. According to Sir William, the plan has three sides. It includes a scheme of all-in social insurance for cash benefit. It includes a general scheme of children's allowances, both from the responsible parent, if earning, and when he is not earning. It includes an all-in scheme of medical treatment of every kind for everybody. The benefits are to be secured through social insurance for all citizens, not only workers, though not in the same way. The benefits proposed include pensions in old age, funeral expenses, medical treatment by a single insurance contribution paid through one insurance stamp. A flat rate of benefit for a flat contribution is envisaged. Equality extends to that. The benefit, said Sir William, will be high enough to provide subsistence and prevent want, and it will last as long as unemployment or disability lasts, without the Means Test. The only exception to the flat rate of benefit is in cases of disability due to industrial accident or disease, in which case, an industrial pension proportioned to the earnings lost, but not less than disability benefit, will accrue.

The insurance scheme of Sir William provides for other needs including maternity and widowhood and also training for new occupation. Industrial pensions, in his view, are only one kind of pension. Assistance pensions are to be provided in other cases and retirement at the age of 65 or (60 for women) is not compulsory. The scheme is meant to encourage men and women to keep on working, while they can. Past contributions are meant to confer something more than a right to pension. The provisional rate of benefit, according to Sir William's estimate, is two pounds per man and women in unemployment, disability or as retirement pension, with lower rates if a person is single or a spouse in working. The basic allowance for a child, namely, 8 shillings, is to be added thereafter to the benefit. A couple with two children should ordinarily get 56 shillings per week. Sir William suggested that the contribution necessary for such benefit is 4/5 every week, from the adult beneficiery

* A summary of the Beveridge Plan by the *Economist* is given in Appendix B.

and 3/4 from the employer, with the State paying the remainder. The contributions are to provide for a national minimum. It has been indicated in this case that the national minimum is different from the benefits provided by insurance schemes in force in other lands. It is a British plan, said Sir William, in summing up the features of his scheme which he compared to that adopted in New Zealand. A full health service is also part of the security plan, and the people's health movement should gain from the benefits promised in case of disease. The amplified health insurance plan was left open for further enquiry, said Sir William, who said that the national minimum for every citizen included being well.

Whatever may be the shape of things after the war, one thing is certain. the common people are not going to tolerate a return to the uncertainty, the unemployment and the inequalities of the pre-war days. Every warring Government, whether in Germany or Britain, is anxious to assure its citizens that for all the sacrifices they have been forced to make by the demands of totalitarian war, they will have the assurance of a secure, decent level of existence, freed from all gnawing uncertainties, after the war. President Roosevelt has popularised the slogan "Freedom from want" as one of the major war aims of the Allies. In Britain the Labour members of the Government have been telling the workers that this time they shall not be deceived as they were in the last War, when they were promised "Homes fit for heroes to live in" and were sadly disillusioned when they found that their conditions remained unaltered In this war the sacrifices demanded of the people have been vastly greater and the social changes brought about by the war are on such a scale that no Government can afford to take up the attitude that things will adjust by themselves on the return of peace The task of switching over millions from war industries to peace-time occupations, the absorption in industry of the hundreds of thousands who will be demobilised after the war, the rehabilitation of ruined homes will need a great deal of planned effort by the State. There has been in various countries considerable constructive thinking on the lines along which this post-war reconstruction should be undertaken Sir William Beveridge's report, just published, constitutes an important document on the subject.

The main aim of Sir William's plan is to see that no one in Britain, man, woman or child, is denied the means of having a minimum subsistence for any reason whatsoever. His scheme may be said to ensure both the right to exist and the right to work. In its comprehensiveness it is wider than anything hitherto attempted anywhere, except perhaps in Soviet Russia. It brings under one authority and into one scheme all the existing social insurance schemes in Britain, provides for a single weekly payment by all gainfully employed persons to cover the various benefits to be given under the scheme. The plan seeks to provide for every man or woman in need, for whatever reason, a basic minimum income, with benefits for unemployment, sickness, disability owing to accident, widowhood or retirement through age. Special benefits are provided for housewives and allowances for children. There is no upper limit regarding incomes every one from the lowest worker to the biggest millionaire must

contribute his weekly premium. In the case of workers, the employers also have to make a contribution for each employee. It is not clear from the summary whether Sir William regards that the scheme will be self-supporting. Conceivably, as in the present unemployment insurance scheme, the State will meet whatever deficit may arise in the administration of the scheme. It is obvious that a cardinal merit of the Beveridge plan is universality. As no upper income limit is fixed, many who are not likely to claim benefits under the scheme will, nevertheless, contribute premiums An important part of the scheme is the provision of free medical relief to everyone and the proposal regarding training centres for the unemployed.

Sir William estimates that the scheme will cost £697 million in 1943, rising to £858 million in 1965. When it is remembered that the entire budget of Britain in pre-war years did not exceed £800 million a year, the stupendous cost of the scheme can be imagined. How much of it will be a burden on the State is not clear. That it will impose a considerable burden on employers is obvious. But the price they may have to pay may be small compared to what they may gain by the elimination of the causes of social discontent. For, it must be noted that Sir William's plan is framed on the basis that private ownership and the profit motive in industry will remain. That does not of course mean a complete return to the pre-war system. There is bound to be a great deal of more control over industry by the State than has been witnessed in the past and much of it will be exercised in the interests of the workers and the consumers.

Naturally the question may be asked whether in India anything on the lines of the Beveridge plan is being contemplated. Up-to-date the answer is: Nothing. Comparing the gross facts of the Indian scene with the grand aims set forth in the Beveridge report one is struck by the appalling difference in the two countries. While Sir Beveridge plans to offer to every unemployed worker a weekly allowance of 56 *sh.* (equal to about Rs. 38 at the present rate of exchange), it is doubtful whether even one per cent. of our "gainfully employed" population earns that much. The problem in India is thus not only one of distribution, but much more one of production. To raise the general level of incomes in India and to ensure for the people the minimum necessities of civilised existence calls for colossal and unremitting endeavour by the State. It may take us at least a generation to reach anything like the level reached by the more advanced countries. It needs above all popular Governments at the Centre and in the Provinces, alive to the needs of the people and determined to see that the lapses of a hundred years are made good in the shortest possible time. National freedom is the basic condition for the achievement of "freedom from want".

INDIA

How till April 1942, after two and a half years of war and considerable addition to the currency circulating in India, inflationary conditions had not yet set in, how the need for reflation was really huge, was explained by *Indian Finance* in the following words:—

Active note circulation in India has risen from Rs. 172.36 crores on September 1, 1939, to Rs. 378.93 crores on March 20, 1942, or by Rs. 206.57 crores. The amount of rupee coin in the hands of the public has also expanded considerably. Since the war started, there has been a persistent outflow of rupee coin from the Reserve Bank. On September 1, 1939 the stocks of coin in the issue department of the Reserve Bank were Rs. 75 87 crores. They had gone down to Rs. 27.71 crores by March 20, 1942. In addition, the Reserve Bank received from the Government rupee coin or one rupee notes for Rs. 12 crores. There has thus been approximately an increase of Rs. 60 crores in the rupee coin in the hands of the public. Subsidiary coins also have been in great demand; and the additional coins in the last two and a half years may be anything like Rs. 15 crores. The new currency in the hands of the public since September 1, 1939 is, therefore, over Rs. 280 crores. In relation to the financial and currency position of India, additional currency of Rs. 280 crores in thirty months must be considered as abnormally excessive by ordinary standards, and even students of economics may, at first sight, be impelled to draw definite conclusions of inflation from this phenomenon.

On a closer scrutiny of the relevant facts and data, however, unduly alarming inferences appear unjustified. So far as the increase in rupee coin circulation is concerned the bulk of it is accounted for by the large-scale movement of hoarding coins, that took place after the fall of France. Considerable amounts of rupee coins had been despatched to various upcountry places for being kept in hoards. A part of the increase in coin circulation and in small coins is directly attributable to the war The troops from their places of training to the actual war fronts have to be kept supplied with small currency. Payment has to be made for the thousand one requirements of the army; and much of these funds returns to the money market proper only in a leisurely fashion. As for the increase in paper note circulation, here again it has to be remembered that most industries in India are now working to full capacity; and employment is at the highest. Increased economic activity and increased employment are bound to result in an increased demand for currency. It is also to be noted that the deposits of banks have risen sharply since the war started; and more than half of the increase in the active note circulation is accounted for by the increase in deposits.

There is another important fact to be remembered in this connection Government loans sold to the public in the two and a half years of war must be for Rs. 130 crores, taking into account the defence loans and the rupee counterparts. This gives an average of Rs. 50 crores per year. The capacity of the Indian capital market in ordinary circumstances may be said to be Rs. 25 crores for new loans. That defence loans have been taken up to the extent of Rs. 50 crores per year, is gratifying evidence that, to the extent that inflation in the financial sphere is to be combated by diverting surplus funds to Government loans, the achievement so far is reassuring. Similarly, new taxes have been imposed from time to time since the war began; and the revenue from the new taxes now represents a substantial proportion of the total revenue.

Finally, we may draw attention to the recent scare of imminent air attack on India and its effect on the demand for currency. People who have returned from Rangoon have taught us one lesson; everyone of us should keep a fairly substantial amount of cash at home. Many people in Rangoon were taken unawares; and, though they had substantial properties and securities, what proved of real use was the cash which they had with them. This is responsible for many people in India maintaining substantial cash balances at home. The new currency connected with this tendency to keep cash for emergency should not be less than Rs. 30 crores. Taking all factors into account, we are of the view that inflation is not an imminent hazard, or even likely hazard in an acute form, if the economic situation is guided and directed on wise lines.

As the writer in the *Monthly Review* of the Bank of Nova Scotia points out, by the very nature of things, some inflation is always tending to develop in war time. There is, however, a great deal of difference between some inflation and a serious inflation; and there is no need to cry "blue rain" prematurely. Nor should we forget that *inflation, so long as it is scientifically controlled, is a stimulant,* one of the quick ways of diverting resources for the purposes of war. (Italics are by the authors.)

It is true that by 8th January 1943, the note issue rose to 598.86 crores, being an increase of 382.08 crores on the average note issue in 1939, it is true that the price index of Calcutta rose to 325 in May 1943, having been at 108 in 1939, and it is also true that velocity of circulation has gone down from 17 in 1940 to 4.9 in April 1943. But the fact is that if only private capital issues and Government public works policy had been anything like adequate in view of the country's potentialities and the opportunities offered by the war, the country should have easily absorbed the entire additional currency without either lowering the velocity of circulation or raising prices unduly. This fact was recently emphasised by Dr. P. J. Thomas when he said:

India will need a much larger currency circulation than the pre-war normal of Rs. 175 crores, and a total currency of Rs. 600 crores may not only be not inflationary, but may become a highway to economic progress in this land of low purchasing power.

Or, if an adequate expansion of business activity were not possible, a freely operating Reserve Bank of India must have succeeded in securing against the net dues to the country either gold or dollar assets, and thus avoided adding to the note circulation by facilitating deposits abroad or foreign purchases on private account.

More details of the latest inflationary tendencies in India are discussed in a subsequent chapter.

HYDERABAD

"I might appear to have unorthodox views on finance, but I feel convinced that State expenditure on Education, rightly planned and rightly administered, is a thoroughly sound financial investment. Its returns may not appear to be tangible, but by adding to the general productivity of the masses and by enhancing their welfare—moral and material—it does give a return with which any State which has the welfare of its people at heart, should be thoroughly satisfied."—THE HON'BLE MR. GHULAM MOHAMMAD.

Certain problems relating to planning in Hyderabad are discussed in other chapters. Although we have had but little in the shape of policy in this all-important respect, till very recently, it is significant that the Hyderabad Government have very recently set up a Post-War Reconstruction Secretariat. This is indicative of the fact that Hyderabad is desirous not only of keeping abreast of the times along with British India, but also preparing to make headway wherever possible in view of the vast potentialities of the Dominions and the close co-operation accorded by the population.

The Keynes and the White Plans for post-war planning and reconstruction are dealt with in Appendix D.

CHAPTER XIII

FOUNDATIONS OF AGRICULTURAL ECONOMY

"The central bank has one and only prime responsibility, namely, to maintain a stable outlay by consumers: all of its efforts should and must be diverted to that end."—R. G. HAWTREY.

"The right of every individual to the means of attaining his full inherited capacity for health and physical fitness should rank as equal with his right to religious and political freedom. ... Inadequate diet is the main cause of grave social injustice If planning for human welfare is to be undertaken, a beginning should be made with a food policy based on nutritional needs as this would do more than other measures to promote health and happiness and alleviate the worst effects of poverty. If every family knew that in any circumstances, they would have sufficient of the right kind of food to give their children the full opportunity of the enjoyment of a healthy life, the worst fear of want would be eliminated. ... The milk policy of the last two or three years (in Britain) has made it possible for farmers to get fixed prices for an increased output, and it has strengthened the whole of our rural economy. The cure of the problem of malnutrition contributes substantially to the relief of unemployment."—G. FINDLAY SHIRRAS.

"To the nutrition worker, the food situation in India is thoroughly unsatisfactory, in normal times. A nation-wide "grow more food" campaign would have been appropriate in 1938, before the war started, and will be appropriate in 1945 when, let us hope, the war will be over. The majority of the population lives on a diet far remote from the most moderate standards of adequate nutrition."—W. R. AYKROYD.

"Preliminary investigations and research must precede any action."—HON'BLE MR. GHULAM MOHAMMAD.

RURAL RESEARCH

THE most important observation on the results of the inquiry in 1928–30 into rural conditions in Hyderabad, made by Mr. B. A. Collins, then Director-General and Secretary to Government, Commerce and Industry, may be quoted here:

> The fact that this enquiry shows that in spite of the low incidence of debt per acre under cultivation, land is rapidly passing out of the hands of its former holders in some areas, alone justifies its inception.

The London *Times* said about the inquiry, in its issue dated May 28, 1932:

> The Survey shows that generally in the Dominions of H. E. H. the Nizam, the rates of interest paid are not as high as they are in some parts of India, though far too onerous from our Western

standpoint. Two rupees a month simple interest, or twenty-four per cent. per annum, is the usual maximum, though rates for loans in kind, if worked out in cash, are higher. It is significant of general Indian conditions that Mr. Collins should deem it necessary to remark that "even these rates make it difficult for the cultivator once encumbered, to free himself from debt" Happily a feature of the statistics is the large proportion of families which are entirely free from debt.

The Hyderabad Agriculturists' Relief Regulation and the Hyderabad Land Alienation Regulation were promulgated soon after the inquiry, pending their passing through the legislature in due course.

Perhaps the inquiry carried out in 1928-30 was justified in another way: Government felt the need for another inquiry within a few years after.

To know the facts is the first step towards amelioration; and we may be assured that the Nizam's Government so progressive in these days did not undertake this investigation as an end in itself (The *Times,* London.)

Mr. S. M. Bharucha, Additional Revenue Secretary to Government, was directed to inquire into the problem of the extent and relief of agricultural indebtedness in these Dominions, and other allied questions to be handled by him were the *bhagela* (serf) system, the Land Alienation Regulation and debt conciliation Mr. Bharucha's report was signed on August 18, 1937, and during the five years that have elapsed after that, the Hyderabad Government have taken numerous steps in order to intensify their campaign for making the average agricultural home in the State happier.

MERITS

Mr. Bharucha's was an ambitious scheme—almost a small census: he took up every *taluqa* in the Dominions, and selected three villages from every one of them, making up 312, out of a total of 21,697 villages in the State. The number taken up in 1928 was only 56, and the proportion recommended by the Bowley-Robertson Committee was 1,650 out of 422,000 villages in the whole of British India: the ratio works at one village for every 387 in the first, one in every 256 as per the Bowley-Robertson Committee, and one in every 69 villages in the Bharucha inquiry. This extensiveness of the Inquiry enhances the value of the data as being more representative of conditions in different parts of the country. Another special merit was that Mr. Bharucha had the close co-operation of the entire Revenue Department at his command: this fact must have given him special facilities in the intra-mural as well as the extra-

mural aspects of his inquiry. Thirdly, Mr. Bharucha had the additional advantage of long experience in matters relating to land revenue, and was thus in an eminently equipped position for judging on matters relating to rural costs, yields, etc. Lastly, he took great pains in order to help Government with draft bills (printed as appendices to his Report) on some of the major recommendations made by him. The recent sanction of the Land Mortgage Bank Scheme is the latest of the fruits of Mr. Bharucha's labours.

LAY-HANDLING

But a careful study of his report and figures leaves the student of Economics with the oppressing feeling that Mr. Bharucha would not have lost anything, but gained a great deal, if he had consulted *some* Economics man who possessed some experience of such inquiries. His report gives evidence of a fairly wide study of literature on the subject: he quotes men like Rushbrook Williams and Sir Malcolm Darling and authorities like the Royal Agricultural Commission and the Director of Statistics, Hyderabad. But the value of an inductive and first-hand inquiry on the spot is categorically different from that of quoting from general treatises (however valuable by themselves) not based on similar first-hand inquiries. To mention only a few rich sources of inspiration, Mr. Bharucha would have done very well to visit or at least consult the Brookings Institute at Washington, the Division of Rural Research of the Works Progress Administration, the U.S.A., the Punjab Board of Economic Enquiry (Rural Section) and the Gokhale Institute of Politics and Economics (Servants of India Society). A few points that should prove useful to any such inquiry in the future are enumerated hereinunder. These observations do not take away from the value of Mr. Bharucha's report, but the experience of one worker should prove a stepping stone to the next.

SELECTION OF VILLAGES

Although the number of villages taken up by Mr. Bharucha was quite large, the principle of selection was that of the 'random sample'. The villages were selected after dividing all the villages in each *Taluqa* into three groups according to their *population and revenue importance*. That is, one big, one medium-sized and one small village were taken up in each *Taluqa*. From the point of view of representativeness, there need not be any casual connection between revenue importance and population on the one hand and agricultural indebtedness on the other: there is quite a chance of villages being selected, quite in conformity with the three grades in relation to numbers and land revenue, but these villages might all be similar

in economic conditions of *raiyats* and not *represent* the condition of agricultural indebtedness in different parts of the *Taluqa* even approximately. All the three villages selected in a *Taluqa* might have been good, bad or indifferent in a lot. Rather, the more reasonable course would have been for Mr. Bharucha to have selected three villages in every *Taluqa,* after consulting local non-officials as well as officials, one village reputed for its prosperity, a second of the average type and a third noted for indebtedness and poverty. It is true that even such a selection should after all be based on guess, but local experience and knowledge should prove of great value in selecting villages of different incidence of debts: this would give a proper balance to the whole.

Collection of Data

Which is the more important work—collection of data or their 'clarification'? The Bowley-Robertson Committee was very particular that the task of collecting data in the villages should be entrusted to technically trained staff. And they recommended for the purpose of an economic census that one investigator should busy himself in a single village for one year! On the other hand, Mr. Bharucha depended *entirely* on the village officers for the primary compilation of data. For one thing, it is rather difficult to agree that village officers understand the purpose of each question given to them for compilation of figures. They have a thousand other figures to compile in the course of the year. For another, it is doubtful how far correct data could be expected from the village officers, several items of inquiry being against the interest of the village officer class itself which in many cases does money-lending or land-grabbing or both. The consequent discrepancies in the inquiry are not surprising. Mr. Bharucha admits that out of 55,027 landholders, 4,177 could not be examined. We are not told how many of these 4,177 landholders belonged to the class paying Rs. 50 or more land revenue, how many to that paying between Rs. 10 and Rs. 50 and how many paying less than Rs 10. Similarly, details of 5,492 *hissadars* (actual occupants of lands within a *patta* or a registered occupancy) according to land revenue classes is not given.

Verification of Data

Mr. Bharucha has made a strong point that verification of data was done with great care. But he also tells us that this all-important task of verification was done in different cases by himself, the Marketing Officer, the local Revenue Sub-Division Officers, or by his own Personal Assistant. Now, in the absence of technically trained investigators for making the original compilation of data, it was quite

necessary that the verification process was done by a single agency so that the same level of efficiency could have been maintained. As a matter of fact the completeness of the inquiry and the reliability of the data must have suffered enormously on account of men of different equipment having been employed for this purpose of verification.

Exclusion of Jagirs

It is not clear why Mr. Bharucha left *jagirs* alone. He says that indebtedness must be as bad or as good in the *jagir* areas as in *diwani* (Government) villages, but the general impression is that indebtedness is more oppressive in the *jagir* areas than in Government villages. Whatever the real comparative condition, it would have been more useful if he had included a suitable number of *jagir* villages. In arriving at the total estimated indebtedness on agricultural land in the State, he has allotted the *jagirs a* proportionate amount of debt in view of area: the more scientific procedure was to include to a third, *jagir* villages to the 312 villages taken up for investigation instead of sweepingly applying conditions obtaining in Government villages to *jagir* villages *in toto*. The decennial census does not exclude *jagir* villages, and Mr. Bharucha did his work under Firman-i-Mubaraq, and the area covered by the Firman was 'H.E.H. the Nizam's Dominions'. Surely *jagirs* come within the purview of that area. The steadfast policy of the Hyderabad Government has been to minimise the growing differentiation as between Government villages and *jagir* villages, as is evidenced by the introduction of the Co-operative Movement and the policy of suitable remissions in *jagir* area. Their omission by Mr. Bharucha made the inquiry narrower than intended.

Terms not Defined

What is the distinction he makes between 'shikmidar' and 'hissadar', and between 'shikmidar' and 'asami-shikmi' and 'kowldars'? Why it is that he has shown 'shikmidars' along with *pattadars* in columns 3, 4 and 5 of Appendix II, and 'unregistered hissadars and shikmidars' in column 65 (without classification) is not clear. If the argument is that these terms are familiar in Hyderabad and need no explanation, it is submitted that although the terms are familiar, they are used variously with various meanings. And in 1937, there was no reason to expect that students and publicists interested in the subject outside the State should not study the publication seriously.

Nor have we the details about 3,107 members of co-operative societies in the 312 villages selected. While arriving at the average

debt per indebted landholder, it was presumed that *all* the members of the co-operative societies were in debt. It should have been more correct to have taken into consideration only the indebted families among the co-operative members while adjudging the incidence of debt. Mr. Bharucha admits that

"many agriculturists' debts were not correctly reported"; "A large amount of *pattadars'* debts were not disclosed during the inquiry for personal reasons".

What percentage should be added against this incompleteness of data collected, has not been indicated by Mr. Bharucha. "Non-agricultural" holders of land are said to have been "almost every one of them free" from debt. We are not told how many of these belonged to which land revenue class, and how many of these were among the 4,177 landholders "not examined".

"Landholders"

Of the 55,207 landholders in the 312 villages, 49,535 were *pattadars* and only 5,492 were *hissadars*. Here again, Mr Bharucha would have helped both Government and his other readers by defining what he meant by the term *'hissadar'* In the 1928-30 inquiry in 56 villages in the Hyderabad State, the number of *pattadars* was 2,674 and the total number of actual occupants was 4,537, the *hissadars* thus numbering 1,863 In paragraph 6, pp. 3-6 of the 1930 report, 19 different typical cases were examined in order to define what was meant by an actual occupant, and it is not clear what definition Mr. Bharucha adopted. At any rate, the comparatively small and even nominal number of *hissadars* shown by him leads to the belief that the inquiry on this head was rather superficial. This is a very important issue as on these figures depends the size of the average holding Mr. Bharucha declares that the size of the average holding in Hyderabad is 19 acres whereas it is only 8 acres in the Punjab and only 5 in Madras. Mr. Bharucha's inquiry also brought out the fact clearly that the *average* holding in Hyderabad was larger in area than in the neighbouring British Indian Provinces, but one is inclined to feel that Mr. Bharucha's average would have been more valuable if it had been based on more accurate information about *actual* holdings. He has peremptorily brushed aside a large number of "depressed classes as landless labourers although they possessed little or no land". *Little and no land are not the same thing*, and he would have done well if he had laid down a minimum below which he considered land-owning as tantamount to landlessness. The problem in India is indeed double-edged: on the one hand, there are landed magnates who are mostly absentee

land-lords, who maintain a growingly discontented lot of tenants at will and labourers, and at the other end we have a large number of cultivators whose occupancies are far from economic and who on this ground aspire for more land. The "average" holding does not take us very far. What constitutes an "economic holding"? How many of the landholders in the 312 villages held "economic holdings" at the then standards of agricultural efficiency? While on the question of an economic holding, it would be very superficial to go by a standard of mere acreage: whether a holding is "economic" or not depends on several other factors as well; for example, the degree of capital intensity, the kind of crop, cultivation methods, water supply, means of communication and transport, and above all, the amount of public assistance through Government policy and the standard of life considered commensurate for the country. And then there is the other question: should a holding be judged about its being "economic" on the occupancy principle or on that of cultivation? Of two neighbouring holdings, one occupancy and the other cultivation, the latter may prove "economic" although much smaller in size than the former, and much less equipped: "economic" farming depends to a large extent on the unit of farming. Mr. Bharucha did not give any thought to this all-important question.

"Agriculturist and Non-Agriculturist"

Mr. Bharucha has dealt with the question of the transfer of agricultural land from agriculturists to non-agriculturists, but he has not defined the term "agriculturist". Who are "non-agriculturist money-lenders"? Is the village accountant in all cases a "non-agriculturist"? If Mr. Bharucha considered him as such, what were the reasons for his thinking so? Mr. Bharucha would have done very well if he had devoted a chapter for defining the terms used by him: in its absence there is grave danger of his meaning one thing and the reader understanding him quite differently. The 1928-30 inquiry tried to handle the problem analytically by dividing both the buyers and the sellers into four classes each, namely, cultivating families actually cultivating, cultivating families not actually cultivating, non-cultivating families actually cultivating, and non-cultivating families not actually cultivating. The caste system has been fast breaking up, and although it is still not quite dead (the caste *sense* still persists) in social matters, it is practically defunct in the choice of professions. As such any inquiry about land transfers to non-agricultural classes ought to take into account the *de facto* position of the transferee in regard to work on the field.

INDEBTEDNESS OF LANDLESS TENANTS AND LABOURERS

Mr. Bharucha confined his inquiries to the indebtedness of landholders only: the inquiry was to gauge the extent and relief of "agricultural indebtedness". Does or does not "agricultural indebtedness" include the debt burden borne by agricultural tenants and agricultural labourers? Of the three sections of the population, holders, tenants and labourers on agricultural land, which deserves the most urgent attention? In fact, Mr. Bharucha himself says that the *"bhagela"* (serf) system was one of the questions entrusted to him for inquiry. Yet, the debts of these labourers are not made available to us in these 312 villages.

ABSENTEE LANDLORDISM

Nor does he give us an idea of the area of land in these 312 villages cultivated by landless tenants, and the area occupied by permanently absentee landlords. An inquiry into the proportion of absentee landlordism in *jagir* and *diwani* alike, would have been very helpful in enabling Government to take necessary steps to stimulate agriculture by some suitable legislation discouraging absentee landlordism: the legislation on this subject in Burma deserves careful attention in Hyderabad, as, from general knowledge, it can be said that the proportion of absentee landlordism in the State as a whole is high on account of forty per cent. of the area being *jagir* and the bulk of the *jagirdars* tending more and more to concentrate in Hyderabad City.

CLASSIFICATION OF DEBTS

Debts were classified as: (1) land mortgage or secured, (2) unsecured and (3) sundry debts of less than a year's land revenue paid by the family concerned. Item (3) was omitted with insufficient reason. Again, debts could be "secured" by other property than land.

ANALYSIS OF DEBTS

Families with secured and unsecured debt numbered respectively 6,116 and 12,980. 5,492 families were of *"hissadars"* and no separate details are given for these families relating to "secured" and "unsecured" debt. It has to be presumed that *all* the debts of 3,107 members of co-operative societies are "secured" and are included in 6 116 cases shown as owing "secured" debts. 4,177 families' details could not be got. According to Mr Bharucha's own figures, the number of families actually examined in relation to debts was

24,658 (55,027 — 26,192 = 28,835 — 4,177 = 24,658). But on page 9, he has given the number as 24,651, that is, 7 families are not accounted for. Generally speaking, *land in the village* is taken as the basis for gauging *mortgage debt,* and *resident families* for gauging *unsecured* debt. Otherwise, it should lead to confusion. Residential families may own land (burdened with debt) outside the village surveyed. Also, it would be practically impossible to get at unsecured debts of non-resident landowners: secured debts can be arrived at even if the landholder be away, from the village-creditor who may be in or near the village and/or from the registration office of the *tahsil.* But Mr. Bharucha does not refer to resident families at all.

Shifting Rule of Three

Mr. Bharucha has estimated by rule of three (and by rule of thumb *partly* according to his own admission) the agricultural debt of the State of Hyderabad at Rs. 64½ crores. While working the rule of three, should the standard of calculation be, number of villages, area of agricultural land or population? At the first stage he has taken number of villages as the yardstick, but when calculating the *total* indebtedness of the whole State (from the 104 Government and *Serf-i-Khas* Taluqas), he jumps over to the population basis. In his own words:

> The number of *Diwani* and *Serf-i-Khas* "Mufaweza" villages in the Dominions is 15,254. The number of first class villages is 1,794, of the second class villages 4,856 and of third class 8,604, according to the classification made by Tahsildars. The total debt of these areas calculated according to this classification and according to the average debt of these classed in the 312 villages selected, works out to Rs. 40,60,18,350—say forty and a half crores of rupees. This volume of debt belongs to ninety-five lakhs of population in the 104 *Diwani* and *Sarf-i-Khas* (Crown lands) *Taluqas.* The total population of the Dominions at the last census was 1,44,36,148, but population increases every year at the rate of 1,96,000. At this rate as estimated by the Director of Statistics, it is not less than fifteen millions now. If so, the total volume of agricultural indebtedness works out to Rs. 64,64,36,160—say sixty-four and a half crores of rupees. This is, of course, a very rough calculation, but looking to the care with which the secured and unsecured debts of 312 villages (divided into three classes) were calculated, I am satisfied that to put the grand total of agricultural indebtedness in the Dominions at sixty-four and a half crores is not an exaggeration, as indebtedness in the non-*khalsa* (*khalsa* = government) areas cannot be less than in the *Diwani* areas. My estimate, therefore, that the burden income from land has ultimately to bear, is about forty and a half crores of rupees in the *Diwani* and sixty-four and a half crores of rupees in the whole of the Dominions.

Incidence of Debt

"Agricultural indebtedness" by itself is like the sun's rays in ether. What is the relation between seasonal and funded debts? What is the proportionality as among assets, income and debt-burden? On these vital questions Mr. Bharucha is silent. These could have been thrown light on—even in a few villages—if only he had taken to intensive surveys conducted by specially trained staff. His Appendix II clearly means that in Mr. Bharucha's calculations, any one family was (*a*) either debt-free, (*b*) had *secured debts only* or (*c*) had *unsecured debts* only. This is rather very far from the reality. Is it not possible that *some* families must have had both *secured* and *unsecured* debts? Rather, the right classification should have been: (1) debt-free families, (2) families having secured debts only, (3) families having unsecured debts only and (4) families having both kinds of debts. If Mr Bharucha placed families of the No 4 type under No. 2, he should have explained clearly. And to place "unsecured debts" against "secured debts" column should lead to considerable inaccuracy.

Local Peculiarities

On numerous items, Mr. Bharucha does not give figures separately for four *subahs* (Divisions)— leave alone districts Almost everywhere he speaks of his 312 villages *en bloc*. On page 2 of his Report he says:

> An enquiry was first conducted in eight selected villages in Mahboobnagar and Nizamabad Districts, and was extended later to a few villages in the four districts of Aurangabad, Nanded, Raichur and Warangal. The different results in the various districts shewed that it was impossible to draw any certain conclusions from any one district which would apply to the whole Dominions.

while referring to the 1928-30 investigations The bare matter of fact is that any prepossession for drawing generalisations for a whole State like that of Hyderabad would be quite untrue to actual conditions.

Different Methods of Debt Estimates

The Provincial Banking Inquiry Committees in British India published reports on debts *after* the first inquiry in Hyderabad State was over in 1930, and the different processes followed in different Provinces deserve careful study. In Bombay, the Province was divided into ten tracts according to soil, rainfall, crops, agricultural and business conditions, and a few 'typical' villages were selected in each tract. The figures for each set of villages were used as

the base for arriving at the total indebtedness of that tract, and then the total indebtedness of the whole Province was calculated. In the Punjab, Sir Malcolm Darling (then Mr.) got together the debts of all members of co-operative societies and by the process of the rule of three calculated the debts of that Province: he believed that members of co-operative societies were representative of the agricultural community. In Madras and the U.P., mortgages and bonds registered (transactions above Rs. 50 being registered) were taken as of an average duration of 5 and 3 years respectively. Registration office figures were taken for 5 and 3 years respectively regarding mortgages and bonds. From inquiries in certain villages the proportion between secured and unsecured debt was struck, and at this proportion the mortgage and bond debts for the whole Province and proportionate unsecured debts gave the total. In the C.P. and Berar the largest number of householders was directly investigated, about 2 lakhs. In four districts, every village was covered, every household therein. In the other 22 Divisions, 6,000 householders were questioned out of about 30,000. Mr. Bharucha got inquiries made in 312 villages and it should have been very interesting if he had covered at least one *Taluqa* in full, say, about 100 continuous villages. This should have enabled him to see how far 3 villages in a *taluqa* could give us the truth about the whole *taluqa* The following remarks by the C.P. & Berar Inquiry Committee is interesting as it shows that on questions on which Mr. Bharucha depended on hearsay and extraneous authorities and summarily disposed of very important questions, the C.P. & Berar Committee went into them with as much care as into the question of debts.

(1) In Berar, at the existing land values, the percentage of debt to the total land value of the cultivated acreage is only 17 per cent. and the cultivator, therefore, is far from being insolvent.

(2) 3.9 per cent. of the cultivators are hopelessly indebted and their debts amount to 37.4 per cent. of the total provincial debt.

(3) There is a small percentage of persons who are hopelessly indebted and who are responsible for a very substantial proportion of the total indebtedness. At the other extreme, there come a much larger percentage of persons who are not indebted at all. And between these two extremes, come the cultivators who are indebted in varying degrees.

(4) The costs of maintenance and the costs of cultivation for the whole of the province have been obtained and the proportion of debt charges to the net income per year has also been estimated.

Sweeping Generalisations

Mr. Bharucha's report abounds in many conclusions and opinions which demand close attention and early re-examination. Many of his conclusions are based on opinions expressed by writers

and experts who had no experience of Hyderabad conditions. Here are a few specimens. He thinks that present-day land revenue incidence is about one-sixth of the gross yield and one half of the net profit from land. He does not tell us what he means by "gross yield" and "net profit". Does he allow or not for interest on capital and wages for the labour of the cultivating family before arriving at the "net" profit? For instance, in a recent inquiry made under the auspices of the Gokhale Institute of Politics and Economics on Farm Costs, detailed inquiries in 21 villages out of 39 in Wai Taluqa (Satara District) resulted in showing that the average farm (12.5 acres in area) yielded a gross income of Rs. 411 and the expenses were Rs 323, leaving a net income of Rs. 88. But the inquiry also pointed out that if interest at 3 per cent. is allowed on capital outlay and wages at Rs. 108 per year for the labour of the family, the business results in a net loss of Rs. 99. Vagaries of seasons and wide oscillations of prices on account of external market conditions involve the Indian farmer in too much instability to attach any importance to studies in farm costs, but still, investigation into farm costs should prove of very great value as forming the basis for possible reductions and adjustments, and/or for a scientific price technique.

Taking him at his word, if one half of the net yield goes towards land revenue payment, and the other half goes towards payment of interest (compare his figures: total land revenue on agricultural land in the 312 villages—18.59 lakhs, and annual interest charges on the debts of landholders in the same 312 villages—19.54 lakhs), what remains for the sustenance and for the improvement of the raiyat? Taking him at his word, will any land mortgage bank or any legislation be able to save the raiyat from extermination? As a matter of fact, Mr. Bharucha goes further and says that

> annual interest per acre is more than the annual land revenue assessment per acre: it is sometimes more than double the assessment of land in possession of an indebted family.

INTEREST RATES

Mr. Bharucha gives the average rate of interest on agricultural debts for the State at Rs 18-13-8 per cent. Is this the *nominal* rate or the *real* rate of interest? He discusses the *laoni* and *lagwad* systems in the list of causes for indebtedness, but students of Economics should have been grateful to Mr. Bharucha if he had given an idea as to how much the *nominal* rate was and how much the *real* rate. To give an idea of the additional burden borne by the cultivator through the delivery of his crop to the money-lender, it was necessary that Mr. Bharucha should have gone into individual

transactions of cultivators: this work could never have been done by the village officers, at any rate frankly.

The observations by Sir Douglas Young contained in the following U.P.I. message are instructive in this connection:

Complete prohibition of money-lending in India is advocated by Sir Douglas Young, former Chief Justice of the Lahore High Court, in the course of an article in a recent issue of the *Punjab Boy Scouts Bulletin.* He says that a very short Act providing that no action would lie for money lent after a certain fixed date by a money-lender would end this evil for all time.

"It has sometimes been said that for every crore of rupees taken by the Government by way of taxation—which is spent on useful projects such as roads and canals, the courts and law and order—four crores of rupees have been taken in the past by money-lenders who have flourished and grown very fat in and upon India", observes Sir Douglas. British courts even collect the bania's debts for him, the result being the looting of the peasant all over India "I believe there is something to be said for this complaint against British rule. It is certainly true that the money-lender in India takes more out of the population than his type in any other country. In the last few years, attempts have been made in various provinces to deal with this problem, sometimes in not too fair a manner, but that the bania is not only a problem but a dangerous one there is no doubt.

"I often wonder why all countries do not deal radically with this class of parasites. The normal legislation which seeks to reduce this evil is easily avoided by the very clever class who indulge in money-lending. For example, limiting interest is useless; the money-lender merely takes as acknowledgment for a loan several times larger than the money actually advanced. If it is agreed that money-lending cannot benefit the borrower but only the lender, it would appear that the best way to deal with it would be to prohibit it altogether."

Insurance and Warehousing

What has the co-operative movement done in regard to the most vital needs of agriculture, namely, insurance against failure of rains and cattle mortality? No thought appears to have been bestowed on the former, and we have some "dead" figures about cattle insurance societies, everybody knowing that these societies have been defunct long ago. One wonders why these societies have not been cancelled as yet. In 1934-35, animals dead numbered 17, and claims paid amounted to Rs. 614, while the cost of management was Rs. 483. In 1938-39, in India excluding Burma, one society had Rs. 232 funds! Of course, this cost did not include the proportionate share of the cost of the co-operative departments concerned in India. One could overlook such a state of affairs in years of early growth, but these are the last gasps. We have no details of co-operative non-credit agricultural societies—evidently figures must be uncomfortable. We

are not even at A in warehousing. Regulated markets are slowly increasing, but warehousing has been severely dropped out. To prove a token acceptance of the soundness of the movement for warehousing, grants of Rs. 5,000 have been made here and there for constructing godowns of co-operative sale societies, by local Governments, but between rats and bandicoots, human and animal, these grants will lead nowhere. Fire and rat-proof warehouses with facilities for large-scale weighment are much more urgently called for than travellers' bungalows and dustproof roads. In the absence of anything like satisfactory initiative and progress by the co-operative movement in these matters, what has the State in India done in order to further national interests along these channels?

Production and Prices

What has been done by the State in India as to the enrichment of agricultural production which alone constitutes the true basis of all stable prosperity? In 1926-27, the expenditure borne by Governments in British India on agriculture was 9 pies per acre and 8 pies per head of population. The following table gives more details of a later date:—

Direct Expenditure on Agriculture

Country or Province	Percentage of direct expenditure on agriculture to total expenditure charged to revenue	Direct expenditure on agriculture per acre of cultivated area	Direct expenditure on agriculture per head of population
		Rs.	Rs.
1. U.S.S.R.	18·7	4 24	12·45
2. Netherlands	13·6	6·45	1·63
3. Finland	13 5	3·95	5·82
4. Germany	10·7	3·08	3·33
5. Norway	10·1	8·79	8·79
6. Switzerland	9·5	10·21	6·87
7. Sweden	8 2	5 39	7·63
8. U.S.A	7·9	1·5	12·37
9. Ireland	6·4	2·41	9·6
10. Iran	3·1	Not available	0·52
11. Italy	3·1	1·466	2·37
12. Denmark	2·8	0·84	1·74
13. France	1·15	0 622	1·91
14. Gt. Britain	0·92	9·066	2·46
15. U.P.	5·3	0·170	0·148
16. Punjab	3·3	0·148	0·170
17. C.P. and Berar	2·1	0 043	0·068
18. Assam	2·0	0·133	0·076
19. Madras	1.24	0·065	0·045
20. Bengal	1·2	0·070	0·035
21. Bombay	0·96	0·043	0·051

Justly or unjustly, so little is produced from land in India and so much is taken away from the actual product that the *net* remainder

works in a high majority of cases at less than the general *de facto* wage level for unskilled labourers. (Similar is the fate of cottage industrialists.) Thus, this most fundamental problem has two phases:

(1) How the yield could be increased from land; and

(2) How to enable the agricultural workers—whether occupants, tenants or labourers—to secure respectively a net minimum remuneration for their contribution to production?

The following figures show how poor the yield from land is in India—

Sugarcane Growth in 1937

Country	Area under the crop in millions of acres	Yield of unrefined sugar in millions of tons
Argentine	0·445	5·279
Australia	0·257	5·434
Egypt	0·067	2·090
Formosa	0·259	7·5532
Java	0·237	11·702
Peru	0·079	3·261
U.S.A.	0·245	4·828
India	3·818	5·307

Production of Rice in 1937

Japan	7·879	12·089
India	72·277	26·737

Yield per Acre in the Principal Rice-Growing Countries

Country	Yield per acre in lbs.
Spain	5800 (1932)
Egypt	3006
Italy	4880
Japan	3417
Siam	1418
India	1088

Production of Wheat in 1937-38

Country	Production in million tons	Yield per acre in lbs.
France	9·2	1659
Germany	4·4	2016
Italy	7·9	1392
Argentine	9·0	1052
India	10·8	678

Production of Cotton in 1937-38

Country	Production in million tons	Yield per acre in lbs.
Egypt	2·06	446
U.S.S.R.	4·6	356
U.S.A.	14·3	232
India	5·1	89

This poverty of yield is reflected in the following figures about national income and wealth:—

Country	*Per capita* income	*Per capita* wealth
	Rs.	Rs.
U.S.A	2053	9356
Canada	1268	8023
Britain	1092	6371
Japan	271	2308
India (British)	82	441

We have no census of production in this country, but the following figures reveal how unenviable the position of the cultivator is, specially when we remember that the notorious middleman in India swallows practically the whole of any benefit due to rise in prices, and mercilessly shifts the burden of low prices on to the primary producer.

Price Averages in India in Rupees

Commodity	37–38			38–39			39–40			30–6–39			Peak price 39–40			Price on 29–6–40		
	Rs.	A	P.	Rs	A.	P.	Rs.	A.	P.	Rs.	A.	P.	Rs.	A	P.	Rs.	A.	P.
Cotton-Broach per candy	166	0	0	152	0	0	225	0	0	160	0	0	327	0	0	156	0	0
Jute-tops per md.	6	12	0	8	1	10	13	10	11	9	4	0	19	8	0	11	0	0
Paddy-Burma per 100 baskets	98	0	0	95	0	0	110	0	0	101	0	0	127	0	0	122	0	0
Wheat per md.	2	12	5	2	2	5	2	13	0	2	2	9	3	9	3	2	7	9
Groundnut per candy	24	2	0	21	9	9	27	0	5	26	0	0	31	0	0	24	0	0
Tea per lb.	0	11	2	0	9	9	0	11	4	0	10	11	0	12	10	0	10	2

[Note the comparative stability of tea due to strength of organisation.]

These figures must lead to the only conclusion possible: some plan must be adopted for securing minimum prices for the primary producer, at any rate in the case of important crops. The fixation

of minimum prices for jute in Bengal, and for sugarcane in Behar and the U.P., and recently in Mysore, and the distribution by the Mysore Sugar Company of a bonus to the cane-growers out of their profits for the last year—these are highly suggestive. In perturbed times, Government think it necessary to fix minimum prices for Government securities and chief stocks and shares, and the justification for similar minima is much greater when prices of primary products collapse steeply. In India, price control is much more called for at the bottom, not at the top.

Some of the yields mentioned *supra* are not realisable in India even on demonstration plots run or supervised by the technical officers. Surely, this is not due to the poverty of the land, the substantial progress made in this country with regard to sugarcane being proof to show that we have the natural resources, and the only other explanation possible is that our "experts" need to be educated! They must become more efficient. The famous Proefstation Experiment Station at Pasoeroean in Java collects more than £120,000 per annum from a voluntary cess on cane growth. The excellence of wheat yield in Italy was largely due to the ramification of demonstration plots all over the country. The first step would, therefore, be the establishment of Governmental Demonstration Plots with anything like the yield in the respective "best" countries.

The following extract from the *Economist* (April 13, 1940) tells a different tale in Russia:—

Soviet Agriculture

Item	1913	1928	1932	1937	1938	1939
Total production 1926/27 million roubles ..	..	*13,980	13,072	20,123	..	..
Total sown area million hectares .. .	..	113	134·4	135·3	136·9	..
Grain harvest—million metric quintals ..	810	733·2	698·7	1,082·7	855	950–1050
Live-Stock (Million Head)						
Cattle	60·6	70·5	40·7	57·0	63·2	..
Sheep and goats .. .	121·2	146·7	52·1	81·3	102·5	..
Pigs	20·9	26·0	11·6	22·8	30·6	..
Cotton, etc.—million metric quintals ..	7·4	8·3	12·7	25·8	29·2	..
Sugar beet—million metric quintals	109·0	65·7	65·5	218·6	210·2	..

"It has been impossible to show anything in agriculture comparable to the achievements of the Soviets in equipping themselves with

* 1926–28 figures from *Memorandum* No. 12 of the Burmimgham Bureau of Research on Russian Economic Conditions.

manufacturing plant. But, even so, the changes of the last ten years have been striking and fundamental In brief, the trend has been to replace peasant farming by collective farms and State farms, co-ordinated and equipped by regional machine tractor stations, furnishing machinery and machine drivers Only stock-taking, where Soviet achievements still stay obstinately below Tsarist levels, has remained predominantly in the hands of individual peasants. In 1938, there were 3,961 State farms averaging 2,691 sown hectares each· 242,000 collective farms averaging 484 6 sown hectares each, and embracing 18,800,000 peasant holdings; and only 1,300,000 independent peasant holdings.

"The key to these changes in organisation has been mechanisation. In 1938, there were 6,358 machine tractor stations, and in them the bulk of the machinery used in Soviet farming is concentrated. They serve the collective farms on a contractual basis and are paid in kind They serve well over 90 per cent. of the sown area of Russia, and the concentration of machinery in these stations reinforces, in the context of Soviet central planning, the concentration of production in the collective and State farms.

"The spread of mechanical aids tells its own tale. Between 1928 and 1938, the number of mechanical tractors in use rose from 26,700 to 483,500· the number of combines from practically none to 153,800; and the number of lorries from 700 to 195,800 In 1928, the proportion of threshing done by mechanical means was 1 3 per cent : in 1938, it was 95 per cent. And, in the same period, sowing by hand fell from 74.4 per cent. to 12.8 per cent., and harvesting by scythe and sickle from 44.4 per cent. to 8.5 per cent That is to say, that as yet, the expansion in production has been really commensurate with the spread of machinery. In 1913, Russia, on a comparable area, produced 800-820 million metric quintals of grains. This output was never reached again until 1933: in 1937, a record year, the grain harvest was 1,000-1,200 million metric quintals; and last year, the second best year in Soviet history, it was 950-1,050 millions. The cotton and seed crop last year was four times the 1913 figure, and the sugar-beet harvest was double the pre-1914-18 level. Recent improvement is, of course, clearly marked. The average yield per hectare was 7.3 quintals in 1910-14, 7 5 in 1928-32, and 9.1 in 1933-37. Machinery and collectivism are having their effect despite peasant conservation."

Per capita INCOME

Mr. Bharucha has dealt with *per capita* income and an economic holding and the standard of living entirely deductively, and utter confusion permeates the paragraphs dealing with these questions. His readers are not the wiser for learning from him that the Director of Statistics opines that 16 acres of dry land may be considered as an economic holding because it leaves Rs 160 for the family cultivating the land (evidently without allowing for wages) whereas the same Director estimates *per capita* income of the entire population to be about Rs. 47-8-0. *Per capita* income of the

agricultural landholders, that of the entire agricultural population including tenants and agricultural labourers) and that of the entire population—are these one and the same thing? If they are not, Mr. Bharucha had small reason to argue from one to the other. He concludes from the conjecture of the Director of Statistics that any cultivating family working on 16 acres gets Rs. 160 a year whereas from the actual average *per capita* income standard for the whole State, the income should have been at Rs. 142-8-0. He thus concludes that holders of economic holdings enjoy a surplus of Rs. 17-8-0 a year which "is the margin for the purchase of cloth and other comforts". It is printed Rs. 18-8-0, but we may take it to be a printing mistake. Rs. 160 minus Rs. 142-8-0 gives only Rs. 17-8-0. Then he estimates the cost of maintenance of an adult at Rs. 46 per year (which is not far from the Director's average income estimate of Rs. 47-8-0). Now, the Director's estimate (whatever its nearness to truth) was about *per capita* income per unit of population *de facto*, and Mr. Bharucha confuses this with the minimum requirements of an average cultivator and his family *as they ought to be*. The standard of life considered as the minimum for a country need not agree with the actual *per capita* income of that country. Specially in India, the difference between the two must be very large.

Mr Bharucha has accepted an average yield of Rs. 20 per acre dry land, and Rs. 5 per acre expenditure, from the Director of Statistics. It would be interesting to compare these figures with Rs. 411 and Rs. 323 per farm of 12.5 acres, arrived at by the Gadgil Inquiry (The Gokhale Institute of Politics and Economics). The percentage of expenditure to gross yield works at 25 according to Mr. Bharucha and *about 80* according to the spot intensive inquiry referred to above. The difference between 25 and 80 is too wide to admit of both being near the correct percentage.

Standard of Life

One wishes very much that Mr. Bharucha had not given his calculations of the cost of maintenance of a cultivator in Hyderabad in the manner he has done. He has calculated that one and three-fourth seer of jowar (nearly three and a half pounds) covers his food needs—including salt, spices and some *dal*. This comes, at jowar selling at 14 seers a rupee to Rs. 46 per annum. And thus a case has been made that the holder of 16 acres has a margin above the minimum. What an extraordinary ideal for the economic existence of the Indian cultivator! Mr. Bharucha has laid down a standard for the proprietary cultivator in general which cannot be accepted as desirable even for the lowest of the labourers on the farm. As a matter of fact, *bhagelas* in Warangal get better rations

than the standard considered as adequate for peasant proprietors by Mr. Bharucha. Dr. Aykroyd has calculated that the *per capita* minimum need in India of cereals alone is 15 oz. per day, and of oils and fats, vegetables, milk and milk products another 25 oz. per day, in all making up at least 2,000 calories. It follows that in case (as is certainly the case) the latter non-cereal foods are not available or insufficiently available, the daily consumption of cereals should increase, and even with more than proportionate addition to cereal consumption, the food value predominantly of cereals should be smaller Judged from these minimum standards set by experts, the complacency of Mr. Bharucha is very hard to understand And then, what about expenses on houseroom, clothing, health, education, religious and social expenses and a host of other incidental items of expenditure? Does Mr. Bharucha seriously believe that the typical cultivating holder of land in Hyderabad does not need any expenditure on these numerous scores? In Hyderabad State, taking the strength of the average family at five, Rs. 480 and Rs 240 per year of the local currency appear, broadly speaking, to be the lowest commensurate requirements respectively for the cities (with over 50,000 population) and other residential localities respectively at pre-war prices as detailed below:

(*at pre-war prices*)

Item	Cities population more than 50,000	Towns and Villages
	O.S. Rs.	O.S. Rs.
Staple grain "representative"	108	72
Other provisions	72	36
Clothing	24	24
Sundry non-food domestic requirements	48	12
House rent (or repair)	60	12
Education, amusement and other amenities	48	12
Accidents, illnesses, births and deaths and other extraordinary events	120	72
Total	480	240

Note.—The latest (1931-32) estimate for *per capita* income in India by Dr. V. K. R. V. Rao is 62 per annum, and if we include all the items as also allow for a higher standard of living for the proprietary cultivator, nothing less than Rs. 100 per annum per head

should be feasible at pre-war prices This would require Rs. 500 at least per family, and presuming that two out of the five are earning members, each of the two would have to earn at least Rs. 250 per annum in villages. The pre-war yearly income of a prosperous agricultural labourer was on the average Rs. 100. Present costs, prices and wages are too fidgety to serve as a basis for calculation. How the *real* beneficiary during these war years has been, not the actual cultivator, but the trader, is clear from the following note:

An analysis of the course of foreign trade in the three years, 1939-40, 1940-41 and 1941-42, does not, however, yield such a gloomy picture, though in the main it confirms our conclusions. From the table given below it will be seen that there is a decline in exports of jute, cotton and oilseeds while there is an abrupt rise in cotton and jute manufactures. Tea exports also are substantially higher.

But there is need for qualification in the study of figures especially those relating to the jute and cotton trades. The cotton industry has been able to get phenomenal prices for its exports *without being obliged to pay higher prices to the ryot*, while the jute exporter has been particularly fortunate as there was a backlog of orders contracted at higher prices. The *periods of depression were short-lived and frequent enough to prevent the ryot from taking a correct view.*

(In crores Rs.)

	Jute raw	Cotton raw	Jute Manufactures	Cotton	Oilseeds	Tea
1938–39	13·40	24·66	26·27	7·12	15·09	23·29
1939–40	19·83	31·04	48·72	8·58	11·89	26·30
1940–41	7·85	24·45	43·38	16·49	10·05	27·78
1941–42	10·47	17·55	53·78	36·06	10·50	39·28

The effects of the war on our agricultural income have been different at different stages. While at first there was a rise in the prices of our export staples, it was followed before long by the loss of a number of our foreign markets. The increase in the consumption of our raw materials by indigenous industry did not suffice to prevent either a fall in prices of the need to restrict the acreage under such raw material. But the change-over from cash crops for export to food crops for internal consumption was not attempted till the loss of Burma and the consequent stoppage of imports of rice aggravated our food problem. Clearly Indian agriculture is faced with a need to effect a redistribution of acreage between the various staple crops. Since these changes will be achieved in a regime of price control and official distribution of foodstuffs and probably even raw material, it is more than doubtful if the Indian cultivator will in the end be found to have benefited from the war to the same extent as

the industrial worker. In the first three years of the war, the accounts of Indian agriculture may be said to show many entries on both sides of the account but not much on balance.

No scientifically collected data are available for gauging the standard of life among the lowest stratum of population as it stands at present, but it can be said from a close touch with village life that a high majority of families, both in villages and towns, do not reach the respective levels indicated above. It may also be added that in Mysore and in British India to the South, the money figures for the same standard of life would be slightly higher as many items are dearer there than in Hyderabad The bulk of families not at present reaching this suggested standard (in income) are carrying on by underfeeding and by accumulation of debt. The following passages from prominent economists in Britain tell their own tale when applied to Indian conditions. It is indeed a tragedy that Mr. Bharucha, on the basis of such literally impossible standards, considers the general position as quite satisfactory. No reduction is practically possible under any of the items. And as it has been said very truly·

> Labour is a personal prerogative essentially and not a commodity.
>
> Whatever else the price of a finished commodity has to cover, it must normally include the minimum worth of the human labour incorporated in it.
>
> The value of a man's labour according to natural law is a family livelihood—the basic supply price of unskilled labour.
>
> The establishment of a minimum standard of living involves looking first at the actual requirements of the most needy . . The burden of increases in the cost of living depends almost entirely on the size of the family. Without sacrifice everywhere above the minimum, the minimum itself is unattainable—(The *Economist.*)

The basic problem is that the net earnings of the average agricultural worker, whether cultivating occupant, cultivating tenant or agricultural labourer, must be made to increase to respective levels considered as the minimum consistent with a standard of life accepted as the rock-bottom for the respective three classes of workers. Many writers proceed fallaciously when they treat the three classes indifferently while dealing with the question of minimum subsistence level. If we propose to content ourselves with the same standard of life for all the three different strata in agriculture, then the attraction for landholding and improving land would disappear. As a matter of fact, this has been a very prominent cause for agriculture in India degenerating from a business into a mere subsistence farming.

Justly or unjustly, so little is produced from land and so much is taken away from the actual producer that the *net* remainder works in a high majority of cases at less than the general *de facto* wage level for unskilled labourers. (Similar is the fate of cottage industrialists.) Thus, this most fundamental problem has two phases. (1) how to increase the yield from land, and (2) how to enable the agricultural workers—whether occupants, tenants or labourers—to secure respectively a net minimum remuneration for their contribution to production

We must begin at the right end. Everything else must be made to readjust itself to the most fundamental requirement, namely, the ensuring of a minimum standard of life in the country and the minimum for the occupant-cultivator must be respectably higher than the one considered suitable for the agricultural labourer According to liberal estimates, the *per capita* income of the Indian is four annas a day (including the richest), and the unemployment allowance and the minimum wage for an agricultural labourer in Britain are respectively Rs. 1-8-0 and Rs 5 a day (17*sh.* and 48*sh.* a week respectively)! Even after allowing the widest conceivable margin for differences in climate, purchasing power of money, etc., the gap between two annas which the agricultural worker gets per day and the British figures can be explained only one way: "Without sacrifice everywhere above the minimum, the minimum itself is unattainable." Expenses of cultivation are only a very small section of the wider agrarian problem, and the enlightened and progressive Governments in India will do very suitably by setting up thorough-going inquiries into farm costs and yields, consumption and debt, which will enable the working out of *real* wages of the cultivating occupants, the tenant cultivators and the agricultural labourers. The inquiries made under the auspices of the Punjab Board of Economic Inquiry, the Imperial Council of Agricultural Research, and the Gokhale Institute of Economics and Politics, shed valuable light on the question, and the fact that the Gadgil Inquiry cost only Rs. 17,000 working at Rs. 15 per farm covered, it is hoped, will persuade the authorities to launch such foundational inquiries into costs and yields. It is true that erratic seasons and more erratic prices reduce the value of such inquiries, but knowledge scientifically collected, ought to be the basis for all sound action, and such knowledge must help the technician and Government in discovering further economies in costs, the evolution of a scientific price technique and readjustment of taxation. L. M. Fraser said:

To isolate Economics in a pure theoretical field would be to exclude from it a number of problems which only an economist can

take up with any hope of success, not the philosopher, the physiologist, the psychologist, nor the moralist.

May we add: Nor the agricultural expert nor the administrator by himself.

Here is what the economic architect-wizard of Britain, Lord Keynes, says about the standard of life in that country after the present war:

> After a year of war, Britain remains richer in national wealth than at the beginning of 1937 Stop thinking that after the war we shall have to lower our standards of life. I see no likelihood of that. On the contrary, I hope we shall have learnt something about the conduct of currency and foreign trade, about controls and about the capacity of the country to produce, which will prevent us from ever relapsing into our pre-war economic morass. There is no reason why people should not look forward to higher standards of living after the war than ever they had enjoyed.

Surely we have the *ground* for holding a similarly optimistic view on the future in India, but we must develop a higher standard of economic research and of co-ordination not only of material but also of intellectual resources, and a grimmer grit.

The Hyderabad State Bank is the most appropriate agency for organising and pooling the results of such inquiries—specially in the field of agriculture—if agricultural finance in these Dominions should be recast on scientific moulds.

The following Reuter's telegram is interesting in this connection:

> The suggestion that the standard of living in India and China must be improved and secondary industries established, was made by Sir John Orr, Director of the Rowett Research Institute and Nutritional Adviser to the Ministry of Health, speaking on the results of the Hot Springs Conference. There would be opposition, he warned, but the plan could be carried through because it was right.
>
> Referring to the recommendations of the Conference, he said that if they were put into effect, children's diseases like anæmia and rickets would entirely disappear and there would be a general increase in height of about four inches and the expectation of life would increase. But this would involve a revolution in world agriculture, for production would have to be expanded to keep people in good health. Farm buildings must be remodelled and farm labourers better paid and provided with decent houses.

CHAPTER XIV

INDUSTRIAL FINANCE

"Its climate is good, temperature equable, and though deficient in rainfall the State has a fertile soil which under irrigation produces good crops of maize, rice, mustard, fruits, indigo, wheat, oil seeds, cotton and tobacco. In the Singareni mine, the State possesses the second largest coal supply of India. In pasturage and cattle, the Dominions abound, and for horse breeding have a name, but there is need for an extensive development of the resources. Potentially the Nizam's territory is of the richest in India....the people are well-to-do and they deserve their prosperity. Besides the crops and cattle, enthusiasts believe there is enough gold in Hyderabad to cut the throat of the Klondike and beggar the Rand."—LORD SALISBURY in 1891.

STATISTICS AND ORGANISATION

WHILE agriculture is in any country the biggest industry, "industry" in the narrower sense of the term is not all homogeneous in its needs and features. We have the metallurgical, the chemical, and general industries, and from the view-point of organisation we have key, public utility, small-scale, cottage, subsidiary, village and home industries. It is not finance alone that meets the varying needs of these varieties of industries, but finance does constitute a very important determining factor, while the other helpful factors are statistics, tariff policy and purchase policy. The following resolutions passed by the All-India Manufacturers' Association deserve careful attention at the hands both of the Reserve Bank of India and the Hyderabad State Bank:

That paucity of data about economic activities in general and industrial development in particular, makes it extremely difficult to arrive at a correct appreciation of the actual and potential industrial resources of this country.

That the development of industries, specially small and medium scale ones in this country, is retarded not so much from lack of capital as through lack of adequate financing organisation.

That the scheduled banks are not anxious to provide long-term finance in view of the restricted scope of rediscounting facilities under the Reserve Bank of India Act.

That industrial banks be established in important industrial centres throughout the country.

That the Insurance Act of 1938 be amended so as to give more latitude to life insurance companies in the matter of investment of their funds and thereby enable them to invest in industrial enterprises a large proportion of their funds than has been possible hitherto.

That scheduled banks be encouraged to grant loan facilities for the financing of small and medium-scale industries by permitting the Reserve Bank of India to rediscount such loans on favourable terms.

From the view-point of full employment, regional economic independence, a fairer distribution of the national income and the development of a healthy section of citizens, the encouragement of small-scale and cottage industries can no longer be neglected. And whichever be the kind of industry, unless and until ultimately the central bank takes up the problem and provides adequate finance on terms suitable to the industry, the intermediary agencies like industrial banks, co-operative societies, indigenous money-lenders, etc., cannot possibly bring about any tangible improvement according to an accepted plan.

The scope for research in the monetary and financial field is very great Which way is the national wealth and income tending? What should be done to anticipate a particular slump? Such questions are the province, to-day, not of guess work, but of scientific calculation. The extract here throws some light on this:

In estimating the effects of public investment upon employment the authors follow the *a priori* method of Mr. Kahn's original calculation. They refine upon it by estimating different values for the "leakages" in investment and consumption industries, and they have devoted great labour to finding the most convincing estimate for each item in the calculation of the Multiplier, which they finally set at 1·5. This is, of course, the "gross" Multiplier which treats increased imports and reduced dole borrowing as deductions from secondary employment, not as deductions from investment, and so has a smaller value than the Multiplier applicable to net changes in investment.

The authors estimate the cost of public works as follows: on the average of various types of schemes, £ 1,000,000 (net of land costs) provides 4,000 man-years of primary employment (2,500 direct and 1,500 indirect) and (with a Multiplier of 1·5) another 2,000 man-years of secondary employment. The cost per man-year is thus £166 2/3, of which, they estimate, 40 per cent. returns to the Exchequer through reduced dole payments and increased tax receipts within two years of the initial outlay. The net cost is thus £100 per man-year. These painstaking and conservative estimates of magnitude, formerly the sport of guess-work, should provide useful material if the old argument that public works are wasteful and extravagant should rear its head again.

—*Economic Journal*, April 1941, page 128.

In the U.S.A., the Federal Reserve Board maintains an Index of Industrial Production while the *New York Times* and the *Economist* maintain indices of "general business activity". Obviously on account of practical difficulties, the entire agricultural economy and service industries are excluded from the F.R.B. Index. The

new Index with several improvements was begun and published in the *Federal Reserve Bulletin*. But even this is considered as unsatisfactory by some economists on account of insufficient data and inadequate technique. Comparisons over different periods necessitate fixed weightage and this requires homogeneity in the period considered, which could be accepted at best only for short periods. E. Cary Brown bewails:

Our economic skeleton must stagnate in its closet for the time being at least.

The following F.R.B. Index of Industrial Production is interesting:

Federal Reserve Board Index of Industrial Production

Year	Revised Index 1935–39=100	Old Index	
		Base shifted to 1923–25=100	1923–25=100
1919	72	83	83
1920	75	86	87
1921	58	67	67
1922	73	84	85
1923	88	101	101
1924	82	94	95
1925	91	105	104
1926	96	110	108
1927	95	109	106
1928	99	114	111
1929	110	126	119
1930	91	105	96
1931	75	86	81
1932	58	67	64
1933	69	79	76
1934	75	86	79
1935	87	100	90
1936	103	118	105
1937	113	130	110
1938	88	101	86
1939	108	124	105
1940 Dec.	136	156	discontinued

Here in India, discussion on an index of production has no room at all as we have no such index nor is there any likelihood of our having one for many years to come. This does not mean that Hyderabad should not make a start.

Research and publication work have not at all been provided for in the Hyderabad State Bank Act. The Reserve Bank of India has the Agricultural Credit Department which has issued a number of valuable bulletins, and that Bank is also issuing a number of periodical reports. Similarly, we must have, sooner or later, important statistics like index numbers relating to production, wholesale

prices, cost of living, etc., and no other agency could be as well suited for this work as the Hyderabad State Bank. All this means cost, and unless the Act provides for this work and resources are shown for meeting the expenditure, there is little likelihood of the Bank taking to this basic, enlightening work.

The following figures relating to the index of stocks and shares clearly shows that if we bear in mind the steep reduction in goods available for civilian consumption, the high prices and the higher profits and hoards (as well of money as of consumption goods, specially food-stuffs), the picture could hardly be described as one of recovery. If industry were really in boom conditions, the figure for December, 1942, should have gone up, not to 129·32 but to over 200. This apparently shy behaviour of capital is largely responsible for intensifying inflationary conditions in this country. If production had kept pace with increase in currency, it should have had desirable results. If this be the present condition, one wonders what it would be like in the post-war slump! It is true that in other countries, the capital market shows lower rises, but we must remember the difference that here in India, we are basking in the sun of *laissez faire*.

"Indian Finance" Daily Index of Stocks and Shares
(Base July, 1935=100)

	22nd December 1942	20th August 1939
Gilt-edged	101·40	100·57
Banks	102·92	97·73
Railways—		
Guaranteed	96·89	131·02
Others :		
Calcutta	114·77	102·11
Bombay	..	102·95
Preference	106·80	106·7
Electric—		
Calcutta	116·63	112·74
Bombay	100·46	81·44
Jute	86·40	80·47
Coal	132·37	84·19
Cotton—		
Calcutta	181·79	105·04
Bombay	196·40	72·42
Engineering—		
Calcutta	163·72	163·90
Bombay	257·62	153·72
Sugar	115·72	213 81
Tea	108·72	66·88
Shipping	111·49	110·16
Paper	134·66	58·77
Miscellaneous—		
Calcutta	150·17	131·03
Bombay	104·14	95·08
All Shares	129·32	100·49

At a time like this of expectation and hope, one would naturally like to see some figures with regard to production and trade of the State. We have no census of production either in British India or in this State except the few rough crop forecasts which have proved to be far from actual figures in regard to some of the main crops of the country. One volume which, among some others, gives us some idea of production and trade of the State is "Trade Statistics" issued by the Statistical Department of the Hyderabad Government. A brief review of this Report (for 1349 F. 1939-40) should be of interest and value to students of Hyderabad Economics. The Report speaks of the "balance of trade" and the "visible balance of trade" of Hyderabad and puts the former at Rs. 1·91 crores (favourable balance) and the latter at Rs. 1·90 crores (favourable visible balance of trade). It is explained that certain customs duty—exempted articles of import and export are excluded from the figures. Nearly Rs. 168 lakhs worth of imports by Government, by the Residency and the British Garrison, and by the Singareni Collieries have been excluded, and we have no details with regard to the composition of these imports. Details of imports by the Railway have been given, and the figures would have been more valuable if similarly details had been given for the 168 lakhs of imports mentioned *supra.*

The figures given below show the external trade position of Hyderabad including Government imports and exports during the last few years.

Year	In Crores of Hyderabad Rupees		
	Exports	Imports	Balance + or −
1926–27	12·48	13·88	−1·40
1927–28	20·87	18·22	+2·65
1928–29	21·12	18·74	+2·38
1929–30	20·23	18·69	+1·54
1930–31	13·49	13·01	+0·48
1931–32	10·13	13·35	−3·22
1932–33	13·07	13·37	−0·31
1933–34	13·87	14·15	−0·28
1934–35	11·72	14·42	−2·70
1935–36	14·40	13·75	+0·65
1936–37	13·58	14·69	−1·11
1937–38	14·65	14·97	−0·32
1938–39	13·58	14·70	−1·12
1939–40	16·86	16·61	+0·25
1940–41	17·7	16·6	+1·1

Data are from *Economic Life of Hyderabad* upto 1935-36, and from "Trade Statistics" thereafter.

Note the slump in 1931-32 and the beginning of a recovery 1940 onward on account of war conditions.

Secondly, the "visible balance of trade" could not be possibly arrived at without taking into account the export of gold. In 1939-40, the corresponding year in India, the net gold exports were Rs. 34·67 crores, and on the basis of population, Hyderabad must have exported at least B. G. Rs. 139 lakhs worth of gold equal to about Rs. 162 lakhs of the local currency. Really, the export must have been more: in any case, it could not have been less. The "Trade Statistics" does not give any figure against this item: the item itself is not there· probably no figures are available, all or most of the gold having been taken out of the State without any record anywhere. It stands to reason that either the Government should arrange to get these figures by strict examination of parcels and luggage, or the Report must make it clear that "visible balance of trade" figures do not include important items like gold export. On the same standard of population basis, the silver imports during the year must have been about 19 lakhs, but the Report gives 4·29 lakhs. The *real* silver imports must have been much more than 19 lakhs as the cash crops of cotton and groundnut are very important in Hyderabad and most of it goes out of the State, and the villager gets his choice from outside against values due to him: gold he cannot get: so, he must have bought a larger amount of silver.

Thirdly, Hyderabad being a land-locked State, a reasonable margin must be allowed for smuggling, both of imports and of exports: the exclusion of such goods from trade figures is a greater loss than the reduction in customs revenue; for, one would like to have correct figures on this all-important matter of imports and exports of goods. The efficiency of the Customs Department has increased enormously in recent years, but there are any number of river fords and cross-country cart-tracks, and the frontier (all land) is so long: smuggling is inevitable The wide discrepancies as among crop forecasts, customs returns and stocks on hand clearly prove that the element of smuggling is a considerable one in Hyderabad external trade. Perhaps the Report would do well to mention this fact also while presenting figures on the balance of trade.

The visible balance of trade is after all only a part of the bigger affair—the balance of payments or of indebtedness, and if we should have some figures about this, we must get into the Report figures about Government and private remittances to and fro through money orders, cheques and other instruments. A collection of these figures through the Accounts Department, post offices, banks and customs returns should prove of great value in showing the

Government and the public the general trend whether it is a "drain" on Hyderabad or whether it is an influx of capital into Hyderabad from outside, and the dimensions of such a trend. Even small countries like Switzerland do compile such figures which are of vital importance for the national economy. If however the compilation of such figures should prove to be impossible, the next best thing would be for us to confine ourselves to a close examination of our position with regard to foodstuffs and raw materials, from the view-point of economic self-sufficiency and the scope for employment of local labour and local capital, resulting in the enhancement of national income. Such an attempt is made in the paragraphs following.

Cotton attracts our attention most—as our position here is least satisfactory. Hyderabad is the fourth biggest cotton-growing area in India (India being the second biggest cotton-growing country in the world), but she leads in exporting raw cotton and importing manufactured cotton in the shape of yarn and cloth. We did produce 22 million lbs. of yarn and 118 million yards of cloth, but our exports of cloth were only of Rs. 57 lakhs while the value of raw cotton we exported was Rs. 579 lakhs. And our *net* import of yarn was worth Rs. 43 lakhs and of cotton cloth Rs. 189 lakhs. Including imported cotton yarns, our net imports of cotton manufactures were worth Rs. 232 lakhs. And the *per capita* consumption of cotton cloth in Hyderabad was estimated for the year at 13 yards, the figure for the whole of India having been 18 yards, and the national standard put at 30 yards. That is to say, we grow ample cotton, our local cotton manufactures do not meet even a fraction of our demand, and the scope for further expansion in the demand is and must be widening. What is more, the remuneration for the cost of manufacture is paid by us to the manufacturers outside. What would be the prospect for a programme for producing within these Dominions, Rs. 232 lakhs worth of additional cotton manufacture—yarn and cloth? Raw cotton would be available to the local manufacturer at the Bombay rate minus the five per cent. customs duty on cotton exports, minus the cost of transportation which also the foreign buyer pays. The five per cent. import duty on cloth from outside serves as a protection for the local manufacturer (whose exports are duty-free): he could sell his wares at five per cent. less, costs being assumed to be the same. But, as a matter of fact, costs cannot be the same. Railway charges must swell costs of the foreigner: labour is here much cheaper as also capital. Then, how is it so much cotton is going out? There can be only one answer: we lack in enterprise. The stake is high. Shall we wait till that time when we may develop sufficient local enterprise? Shall we bring in foreign enterprise and give it a free hand to exploit the situation when the 21 States in the

Americas are deciding on nationalising all public utility concerns now in the hands of foreign proprietors? Every year, we are losing *net* over a crore of purchasing power in the shape of interest, wages and profits to the manipulators of the cloth we import from abroad.

Our food supply position could be much better in view of our resources, but the 1349 F. figures show Rs. 135 lakhs worth of imports and Rs. 96 lakhs worth of exports, the net foodstuffs import having been Rs. 39 lakhs worth. Our net exports of jowar and jowar flour were at Rs. 23 lakhs and the net imports of rice at Rs. 105 lakhs. While in regard to other food crops, there may not be a necessity for intervention by Government, the case of rice does deserve special attention as such a dependence on a foreign supply with regard to a staple commodity cannot be considered as safe. We want more rice fields badly. The long range crop control acts of the U.S.A. should prove of great suggestive value to authorities here.

In oil seeds, we closely resemble our position in cotton although imports of manufactured products are not so crushing as in the case of cotton. During 1349 F. we exported *net* Rs. 559 lakhs worth of oil seeds, 105 lakhs worth of vegetable oils and Rs. 40 lakhs worth of oil cake. The export of oil seeds for crushing to be done outside is something extraordinary: the export of *oil* is twice blest: it blesseth him that sells and him that buys: it means so much conservation of by-products for the seller and so much economy for the buyer: it means so much additional employment for local capital and labour, and so much quicker turnover for the foreign buyer. The import of cocoanut oil worth Rs. 14 lakhs looks rather strange when we remember the cocoanut potentialities of these Dominions. Now that vegetable oils have begun to be used for lubrication purposes more and more in plant and machinery, the future of these oils is bright.

Coal and cement are industries which have flourished under State auspices, although worked by joint-stock companies, but the success achieved by these industries pales into nothing when we put them by the side of the State Railway. Soap and paper industries have just begun their careers as also sugar. Here again, State aid has not been mean. In tea, salt, tobacco, industrial alcohol, manufactured leather and drugs and medicines, we have great possibilities, and while the dividing line between State industry and State-aided industry is hard to draw, the urgency for State enterprise in these several directions cannot be missed. We import sixty-six lakhs worth of salt while we have rich salt deposits in the Raichur and Gulbarga Districts and thousands of cultivators in that area are familiar with salt pans. Baba Budan is said to have introduced the coffee plant into Mysore, and to-day that State is having flourishing coffee plantations. Surely some of our hill regions must be suitable

for growing tea, and who can say that tea growing in Hyderabad is impossible unless and until Government have experimented seriously? The mohwa flower has great potentialities for industrial alcohol, and here we are annually importing 2·8 million gallons of petrol, and when U.P. and Mysore have started making industrial alcohol and using it for traction purposes, it is not late in the day that we have also made a final start. Our cigarette imports are also high.

Well begun is half done: in our railways, and Road Transport Department and in electricity, Government management has proved quite successful, resulting in so much more of employment to the uneducated as well as to the educated, and so much less of taxation on the general public.

Shall we proceed to nationalise these manifold types of industries which have waited for long to be properly re-organised? The burden involved would be too heavy for Government, and the scope for local talent and capital would thereby be narrowed down very much. The extracts given below explaining Government policy with regard to industries in these Dominions, clearly show that Government do not propose to nationalise them, and thus the only other alternative remains—that of training, arming and equipping the Hyderabad State Bank to develop into the pivot for industrial statistics and finance in the country.

Industrial Policy in Hyderabad

The policy of H.E.H. the Nizam's Government *vis-a-vis* industrial development of these Dominions has been marked by a keen desire to strike a balanced poise between the modern factory type and the old cottage type of industries. While all reasonable facilities have been provided for the establishment and ordered development of suitable large-scale industries, special care has been taken to see that the products of cottage industries are not only able to hold their own but also to improve their position even in the face of keen competition from machine-made goods. *As a first step in this direction, an Industrial Trust Fund with a corpus of a crore of rupees (subsequently raised to nearly 2 crores) was instituted in 1929.* The corpus of the Fund is invested in carefully selected large-scale industries, while the profits accruing from these investments are utilized in helping small industries by way of loans, grants and technical scholarships. *As a result of this, a number of large modern factories have come into existence and, at the same time, a still larger number of cottage industries have been saved from extinction.* Later, with the rapid pace of industrial expansion in the State, existing credit facilities proved not only antiquated but also inadequate. To meet the situation, a State Bank has recently been established, one of its major functions being the financing of industrial concerns.

The mineral wealth of Hyderabad being one of her important assets, the steady growth of industrialization in the Dominions in

the recent past and anticipations of still greater expansion in the coming years have turned Government's attention to the need for increasing the available supply of hydro-electric energy from sources within the State. Accordingly, a number of schemes have been drawn up for making a cheap supply of power available to industrial concerns. In pursuance of this policy, Rs. 50 lakhs have been sanctioned for utilizing the huge water storage at Nizamsagar (the biggest dam in the Dominions) for generating hydro-electric power.

Other important steps taken recently to stimulate industrial activity include the formation of an Industrial Corporation, to be partly financed by Government, for large-scale manufacture in the Dominions, of heavy chemicals, sheet-glass and glassware, glucose, starch, casein and other plastics. To supplement this, a Scientific and Industrial Research Board has been set up to promote, as its name implies, industrial research and to devise ways and means for the practical application of the results of this research to the industrial development of these Dominions. Though admittedly they have their roots in the special conditions created by the war, these various ventures are intended to serve as the nucleus of the future industrial development of the State and can reasonably be expected to become a permanent feature of the scheme of things in the economic and industrial fields.

The first step in this direction has already been taken and as a result *it has been decided to float several industrial concerns having a total issued capital of one crore of rupees of which Government has undertaken to finance 50 per cent. provided the other 50 per cent. is put up by the capitalists of the State.* The State has decided to set apart Rs. 15 lakhs every year for this enterprise and up till now 3 factories have been incorporated, *viz.*, The Allwyn Steel Co., with an issued capital of 15 lakhs, of which 7½ lakhs have been contributed by Government; The Hyderabad Starch Products with a total issued capital of 5 lakhs, of which 2½ lakhs have been contributed by Government; and The Hyderabad Chemicals with an issued capital of 20 lakhs of which 10 lakhs have been contributed by Government. In addition to the above, 2 other Companies, *viz.*, The Hyderabad Chemical and Pharmaceutical Co. and The Hyderabad Enamel Works, Ltd., have also been started with Government aid, financed from the Industrial Trust Fund.

Among the major industries of the Dominions, which absorb about 11 per cent. of the population of the State, the textiles come at the top. Hyderabad stands fourth among the Provinces and States in the production of cotton, with an acreage of about 35 lakhs, which is about 14 per cent. of the total area under cotton cultivation in India and an yield of 10 per cent. of the total output of the country. In the matter of the varieties of cotton grown in these Dominions, a notable feature is that *Hyderabad Gaorani occupies a prominent place in point of fineness of its fibre which is perhaps the finest among the indigenous Indian varieties.* The area under this particular variety is 900,000 acres, and some idea of the benefits accruing to the cultivators from growing it may be had from the fact that the cultivators of one district alone—Nanded—earned an extra income of Rs. 20 lakhs in the course of four seasons. This came to pass primarily because of

the systematic encouragement given and reasonable facilities provided by Government to the growers of this particular variety.

The State has about 9,000 cotton gins, while the number of presses exceeds 100. There are 6 textile mills—two of them State-managed—employing nearly 15,000 hands and producing goods worth roughly two crores of rupees annually. Some idea of their production can be gauged from the fact that there are approximately 126,000 spindles and 2,200 looms in use.

Another important industry recently started in the State is that of the manufacture of paper which is being undertaken by the Sirpur Mills Limited. This Company commenced production from the 15th of March 1942. In addition to meeting the annual consumption of 1,500 tons per year in the State, the Company will also be able to export a considerable quantity of paper. It has been started with a paid-up capital of Rs. 40,64,205, partly subscribed by Government. In addition, Government have also granted it a loan of approximately 31 lakhs.

The past decade has witnessed a remarkable growth in the sugar manufacturing industry in India and the position in Hyderabad, too, has undergone a complete transformation in the past 4 years following the completion of the Nizamsagar Project and the establishment of the Nizam Sugar Factory at Bodhan. This Factory is capable of producing 60 per cent. of the white sugar consumed in the Dominions and has already been instrumental in giving a big fillip to sugarcane cultivation in Nizamabad. *Some idea of the manner in which the consumption of outside sugar has been reduced can be formed from the fact that the quantity of sugar imported has decreased from Rs. 77 lakhs during 1937–38 to 40 lakhs during the period 1940–41.* The initial cost involved in the erection of this plant and in acquiring the extensive farms attached to it was about 51 lakhs, of which Rs. 35 lakhs were raised by the issue of shares to which Government subscribed Rs. 30 lakhs—the balance being obtained as a loan from Government at the nominal rate of 4 per cent. per annum. *The adoption of this method for financing the factory has this advantage that it assures better returns on a more limited capital.* In addition to the above, Government has granted loans to the extent of Rs. 23·37 lakhs for the purchase of sugarcane, besides *Taccavi* loans to cultivators of about Rs. 4 lakhs. The factory is designed with a crushing capacity of 1,000 to 1,200 tons of cane a day but no difficulty is experienced in crushing between 1,500 or 1,600 tons of cane during the same period. 16,798 tons of sugar were produced during the season 1941–42.

Side by side, the waste products resulting from the manufacture of sugar, such as molasses and press cake, are being converted into Power Alcohol. *Hyderabad is one of the few places, among the Provinces and States in India, where the manufacture of power alcohol as a substitute motor fuel has been successfully undertaken.* The Government Power Alcohol Factory at Bodhan has been erected and equipped at a cost of Rs. 8 lakhs, the entire capital being supplied from the Industrial Trust Fund. Last year a successful season resulted in the manufacture of 3 lakhs gallons of power alcohol. The present output of the plant is 3,000 gallons a day,

while the maximum capacity of the factory is over 6 lakhs Imperial Gallons of power alcohol a year, of 99·5 per cent. purity. Arrangements have been made with the main petrol distributing companies operating in the State for the sale of power alcohol mixed with petrol to the general public in notified areas.

Another important industry is that of cement. Hyderabad occupies the third place in this industry, which was started in 1925 at Shahabad with a capital of Rs. 35 lakhs. It has now been merged with the Associated Cement Companies. The factory has up-to-date plants. An interesting point to note here is that *Shahabad Cement was exclusively used in the construction of the Mettur Dam.*

Coal is the most important mineral of the State, and during the last 30 years much progress has been made in the coal mining industry. The annual total output of the Singareni, Tandur and Bellampalli Collieries is about 45 lakhs of tons Recently mining work has been started at the Kottagudium Collieries which are equipped with modern machinery and employ the most systematic and up-to-date methods of mining and cleaning.

Hyderabad stands sixth among the tobacco-growing regions in India. There are two cigarette factories in the State. Nearly 1,700 million cigarettes and 230 million cheroots are made annually. Besides, there were about 193 well-known brands of *beedis* in the Dominions. This may furnish an indication of how well-developed is the beedi-making industry.

The glass industry is also making rapid progress. The Koh-i-Noor Factory manufactures chimneys, tumblers, jars, jugs, and paper-weights—articles which are not only meeting the local demand but have also been able to find for themselves a market outside these Dominions. Last year, glass articles worth Rs. 3,00,000 were manufactured by this factory alone. The industry is expected to receive further impetus by the formation of the Hyderabad Industrial Corporation which will, *inter alia*, assist in the manufacture of glass sheets and glassware.

Yet another important industry in H.E.H. the Nizam's Dominions is the oil industry. Hyderabad is one of the most important oil-seed growing territories in India. The groundnut industry is running on a very profitable basis. About 175 expellers are engaged in this industry.

Though not technically a "major" industry, hand-loom weaving has appropriated to itself a position of far greater importance in the economic fabric of the State than even some of the major industries. It owes its importance to the fact that it gives employment to 3 per cent. of the total population—there being about 4 lakhs weavers—and clothes half of it. Nearly 1,08,775 looms weave cotton, silk and mixed fabrics. The Nander-sela produced in the State approaches the famous Dacca Muslins in point of fineness There are 4,000 looms engaged in silk-weaving, about 58,000 in weaving cotton and mixed fabrics and nearly 14,000 are employed in Kambal (blanket)-making. As an encouragement to hand-loom weavers, a working capital of Rs. 4 lakhs has been set apart to enable the weavers to produce fabrics required for war purposes, and other cheaper kinds of cloth for the public.

The Hyderabad Government has also adopted the Government of India plan to help the smaller industrialists and artisan workers, who are not in a position to undertake war orders on their own initiative, by setting up an official agency which will receive contracts from the Government of India and have the same executed under its own supervision through petty contractors and other artisans, to whom raw materials will be supplied. Under this scheme, Hyderabad will be able to produce various kinds of knives in large quantities and several types of wooden, leather and other small metal-ware articles to the extent of several lakhs of rupees every year. The above two measures have, however, been undertaken, for the present, to help war effort.

Still the work done by now is but a part, a small part, of the work ahead, and both with regard to compilation of statistics on the basis of scientific methods and investigations, and for efficient finance —as well of cottage and small-scale industries as large ones, an effectively armed and equipped central bank must operate as the financial hub of industry. It is only a central bank that can pool resources as also wisely differentiate among the varying needs of different types of industry.

CHAPTER XV

INCOME, CONSUMPTION, SAVING AND INVESTMENT

"Central Banking after having been emancipated from excessive devotion to reserve ratios and raised to an Art, is reduced once more to a Trade, and the position of the central banker is again made analogous, not to that of the navigator who lays out the course, but rather to that of the helmsman who steers it."

THE extraordinary steep increase in war expenditure among the belligerent countries has brought to the forefront the importance of the national income and the practicability of readjusting effectively the net national income, consumption, saving and investment—with a view to secure the wherewithal for the conduct of the war.

The quest after that mystic quantity, the *per capita* income, has the same fascination for the economist and the statistician as the search for spices and gold had for explorers and merchant adventurers in the expansive Elizabethan era

—The *Economist*, June 10, 1939, page 602.

Findlay Shirras opines that economists have by now come to understand something definite by the term "national income"—

the value of the output of goods and services produced in a twelve month excluding what is required to maintain and replace the national capital.

Richard Stone differentiates between gross national products at market prices and net national income at factor cost as the difference between them of the sum of depreciation allowances and indirect taxes. Simon Kuznets defines national income as

the value of the commodities and services produced by the country's economic system *minus* the costs of the commodities (raw material and capital equipment) and of services of enterprise consumed in the production process.

For war finance as also for getting together scientifically arrived at data, the central bank of the country should be the most suitable institution. Of course in war time, it does happen that sometimes the Government assumes for itself certain central banking functions: sometimes, the central bank is dictated to. Sometimes, other expert persons or institutions are used for getting the method or the data. J. E. Meade and R. Stone enumerate the basic material for a national income inquiry thus:

1. The net national income at factor cost measures the money value of the income produced by, and according to, the various factors of production in any period of time, *e.g.*, the rent of land, profits of business enterprise, interest on capital and the earnings of labour. Statistically for the United Kingdom, these estimates would be based principally on income-tax statistics and upon the statistics of the number of workers in employment and upon the average earnings of such workers.

2. The net national output at factor cost measures the value added to the product in various branches of economic activity. Statistically, these estimates would be obtained primarily by the census of production method of estimating the net value added in various industries together with supplementary information on such items as the net income from foreign investment.

3. The net national expenditure at factor cost measures the amount of the net national income (or output) which is used for various purposes, *e.g.*, for personal consumption, for current Government purposes and for additions to the community's capital. Statistically, the estimates would be based mainly upon public finance figures, upon a large number of different quantity and price series and upon figures of foreign trade and other foreign transactions.

The League of Nations estimated the national income of some of the important countries in 1938 in millions of national currency, as follows:

The United States of America ..	63,993
The U.S.S.R.	1,12,000
The United Kingdom of Great Britain and N. Ireland	5,000
Germany	76,000
France	2,50,000
Japan	18,000–19,000
Australia	814

Whether a comparison of the national incomes of different nations would be really justified, is a matter on which there is difference of opinion, The very outlook on life differs in different countries, the standards of life actual as well as ideal vary widely, and the figures of national income are based on data possessing widely different degrees of reliability. Findlay Shirras thinks that comparisons as among nations of more or less similar advancement could be proceeded with, as for example as among the U.S.A., Britain and Germany on one side, and as among India, China, Japan, etc., on the other. But Colin Clark in his *Conditions of Economic Progress* has adopted an international unit for comparing the national and *per capita* incomes of different countries. According to him, taking the purchasing power of the U.S.A. dollar in the period 1925–1934 as the international unit, the *per capita* income is

highest in the U.S.A. and Canada (1,300 to 1,400 units). In Britain, it is 1,000–1,100 units. India finds a place in the last class of *less than* 200 units. If only Colin Clark had made further divisions lower down, India must have gone still lower.

How the war has drawn the concept of the national income from scientific playrooms to the centre of the political stage, and how the quantum of the national income is being largely increased during the last few years, is seen from the following figures:

National Income of Britain in Millions of 1938 £

	1938	1940	1941	1942
Consumption	4,035	3,551	3,408	3,408
Government expenditure .. .	845	2,660	3,355	3,545*
Maintenance and increase of domestic capital	762	395	220	232
Overseas disinvestment ..	– 55	– 658	– 638	– 485*

Here is a comparison in the growth of the national incomes of Britain and the U.S.A. The figures are adjusted on the basis of the purchasing power of the 1938 £ and the 1939 dollar.

	United Kingdom (million £)		United States (billion dollars)	
	1938	1942	1939	1942
Consumption	4,035	3,408	62·0	69·7
Government expenditure on goods and services	845	3,545	15·1	56·0
Maintenance and increase of capital	707	– 253	11·0	7.5
Gross national income at market prices	5,587	6,700	88·1	133·2

According to the Federal Reserve Board's calculation, the national income of the U.S.A. might reach the level of $ 225 billion by the end of 1944 in case the expansion in currency and credit went on at the current rate.

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* 1942 was the first complete year in which Lend-Lease was in operation: this has the effect of making both Government expenditure and overseas disinvestment less than they would otherwise be.

The following table reveals the secrets of war finance in Britain:

The Real Sources of War Finances
(£ million at 1938 prices)

	1940	1941	1942
Increase in output	300	570	1,113
Reduction in consumption . ..	300	600	627
Increase in adverse overseas balance ..	450	500	530
Reduction in private gross investment including the reduction of stocks in private ownership	700	730	430
Increase in Government expenditure in goods and services as compared with 1938	1,750	2,400	2,700

Nicholas Kaldor proudly observes:

The Government are to be congratulated on their wisdom and courage in revealing the "secrets of war finance" in the middle of the war. Their frankness—in significant contrast to German methods which conceal even the budgetary figures—makes possible intelligent discussion and criticism of our methods of War Finance and provides a solid foundation for the confidence of the nation in its own tremendous strength.

Here in Hyderabad as well as in India as a whole, the difficulties in the way of a fairly correct estimate of national income are dealt with by the *Economist* thus:

Even to-day, detailed classifications of the cultivated area and estimates of yield per acre are available only for 80 per cent. of the total gross area of India and one has perforce to apply to the remaining area an average value per acre calculated from the value of agricultural production of the area for which there are figures. Official statistics for milk yields, slaughter for meat, production of hides and skins, bones, hams and manures, are wholly lacking. The incidence of income-tax is restricted to non-agricultural incomes, that is to say, some 30 per cent. of the population and the income-tax returns furnish no evidence of the magnitude of even that class of income; for, with the minimum taxable income of Rs. 2,000 (£150), there are hardly more than three lakhs of assessees. There is no agricultural or industrial census of production. The contribution of railways is measured by the services of the labour and capital employed, and as the Indian railways have mostly foreign capital, it is treated as equivalent to their wages and salary bill. It is taken for granted that 50 per cent. of the agricultural and $66^2/_3$ per cent. of the industrial production are transported by road. Lastly, half of India's gross agricultural produce, two-thirds of industrial products,

the whole of forest produce and minerals are taken as "traded" and appropriate deductions are made in all cases to arrive at the net income.

Dr. V. K. R. V. Rao's own experience of attempting to collect data independently has been most discouraging. In connection with the assessment of the national income for British India in 1931–32, two forms and a circular letter were sent by him to 8,000 firms employing more than 20 workers each. Only 130 replies contained the information required. For 1925–29, Dr. Rao's estimate of British India's national income was 2,068 crorers of rupees. The national income available for human subsistence in British India (after deducting profits on foreign capital and adding remittances from abroad) in that period was 2,023 crores per annum, working at Rs. 77·9 *per capita*. Dr Rao inferred that the national income of India was growing at about 1 per cent. per annum. For 1931–32, Dr. Rao's estimate (with a slightly different connotation of 'national income') is between Rs 15,878 and Rs. 17,904 million, while the estimate by Findlay Shirras for the same year is Rs. 17,030 million. Reviewing Dr. Rao's latest estimate (for 1931–32), Findlay Shirras observes:

Dr. Rao rightly concludes with a caveat that his study cannot be compared with similar attempts for Great Britain and for other advanced countries which have more ample data such as Censuses of Production.

Speaking of India's national income, all the light that the Finance Member was able to throw on this all-important subject was:

I can assure Honourable Members that by every index by which national income can possibly be measured, certain factors show large increases. We know that payments are being made by Government themselves on a scale far larger than before. We know that production has been tremendously stepped up, we know that a very large increase has occurred in the number of persons employed and it is not merely the payments we make on our own behalf and on behalf of His Majesty's Government to capitalists and mill-owners as some of my friends said, which go to swell the national income, but the very wage bill has very greatly increased.

In fact it is almost solely the unfortunate people whom my friend Prof. Banerjea wants to subject to a special cut who have not been affected by the tremendous increase in the economic activity which has resulted from the war.

I realise that in many cases the increases in income have been largely neutralised or outbalanced by increases in the cost of living. This is another matter, but when I was talking of an increase in the national income, I was referring to additional rupees which are being earned by this country at the present time as compared with the pre-war position.

Well, want of data is our strength. India has been bearing her portion of the burdens of war, but it is an apparent paradox that there is more inflation in India than in Britain (see Appendix C), the British standard of life is being better safeguarded than the Indian, the national income of Britain is increasing at astronomical speed while the Indian national income has been estimated, very apologetically, to increase by about 1 per cent. per annum. Even this estimate is for 1931-32. From the view-point of the economist, it is the function of the Reserve Bank of India and of the Hyderabad State Bank to *begin* collecting these highly fundamental data—on the basis of which alone the country could hope to evolve a sound economic policy—as well for war as for peace. In the meanwhile, the Indian population "live in hovels, have only a few clothes, know no furniture, rarely drink milk, hardly ever eat meat or fruit or other expensive though nutritious items of diet....They have little on the 'miscellaneous' items which serve as an index to the standard of life."

What is the national and *per capita* income in Hyderabad, and what is the proportion of Government expenditure to the income of the population? How much is being saved by the population, and how much of this is being invested in productive channels? We have absolutely no data, and all that can be done (to have some estimate is better than to have none) is to argue from figures suggested for British India. According to Dr. V. K. R. V. Rao and Prof Findlay Shirras, the national income of British India was estimated at about Rs. 1,700 crores and it was estimated to increase by about one per cent. annually. The estimate was for 1931-32. By 1937-38 it might have risen to Rs. 1,800 crores. The national income of Hyderabad could be derived from the figure for British India (*a*) on the basis of area, (*b*) on that of cultivated area, and (*c*) on the basis of population. In 1937-38, the area of British India and Hyderabad were respectively 1,096,171 square miles and 82,698 square miles: the cultivated area was respectively 213 and 19 million acres; and the population was 274 and 16 million respectively. For 1937-38, the derived figures for Hyderabad work at 173, 245 and 105 crores respectively. Of the three standards of comparison, that of population appears to be most suitable in view of present conditions, and allowing for annual increases and war stimulation of production, the national income of Hyderabad in 1941-42 could be estimated at 110 plus 100 totalling B.G. Rs. 210 crores. Looking to the latest budget, it could be seen that Government expenditure of all kinds is less than 5 per cent. of the national income. And putting the proportion of saving at 10 per cent. of the national income, the saving by the people of Hyderabad could be estimated at O.S. Rs. 25 crores. The drain

of Hyderabad is considerable, and Rs. 5 crores must be allowed as emigrant saving, thus leaving a net balance of O.S. Rs 20 crores. This amount must have been invested in land improvement, buildings, private money-lending, deposits in banks and in post office savings banks and cash certificates, purchase of shares and stocks, investment in industry, trade and other business, and in Government loans. The portion hoarded would comprise actual cash held and ornaments made. Although we have not figures it could be confidently claimed that most of this 20 crores is, apart from hoarding, invested in highly unorganised avenues, and under present conditions, the only agency that could rationalise and canalise national savings is Government. These figures, with all their limitations, are a powerful argument for an active public works policy to be taken up by Government—of course through the agency of the Hyderabad State Bank.

CHAPTER XVI

LIMITATIONS: THE TRADE CYCLE

"In terms of the New Deal of President Roosevelt, the spearhead of attack on trade depression is to be found, not in the Federal Reserve Board or the Public Works Administration, but in the Agricultural Adjustment Act."
—SIR WILLIAM BEVERIDGE.

"The Trade Cycle is the price to be paid for a high rate of economic progress."—D. H ROBERTSON.

"The barrier of capitalist production is capital itself."—LORD KEYNES.

"While it is admitted that there are limits to the efficacy both of public works planning and of credit control as means of smoothing out the business cycle, it does not relieve public authorities and central banks of the duty and responsibility of exerting themselves to the utmost to achieve whatever they can in these directions, collectively and individually. Even allowing for the limitations already referred to, the combination of these two methods could be made to operate with some beneficial results."—M. H. DE KOCK.

POLITICAL STRATEGY *Versus* FINANCIAL SOUNDNESS

How the applications of principles sound by themselves may lead to unexpected results on account of local peculiarities, is described thus by Kurt Singer:

Under the "deflationist" and "re-valuationist" regime of the late Mr. Inouye (Japan) 1929-31, retail prices fell from the very beginning, without any time-lag with wholesale prices, and closely corresponding to the rate at which the circulation of bank notes was reduced, ending in 1931 with note issued 21 per cent., retail prices 26 per cent., wholesale prices of domestic goods 31 per cent., and wholesale prices in general (indices of the Mitsubishi Research Institute) 40 per cent. lower than 1928. After three years of "reflation" and "devaluation" under Mr. Takahashi, the figures, also compared with 1928, were only 8 per cent. for the note issue, but still 19 per cent. for retail prices, 28 per cent. for wholesale prices of domestic goods and 22 per cent. for wholesale prices in general. These figures certainly prove nothing, but they do suggest the same interpretation as that to which we have been led by observation and argument: the cash-holding elasticity in this country assumes asymmetrical values for upward and downward movements. It may therefore be inferred that the violent reaction in classes hitherto submissive and quietist, against the Inouye regime was not only due to a fortuitous coalition of political strategy and economic interests, availing themselves of the instinctive aversion of this nation to be governed by sullen warners, but that there was a

grain of economic truth in the vehemence of that reaction; so that the financial policy of the subsequent years was dominated, mainly, by the necessity of redressing adversities caused by a doctrinaire application of the sound principles with eyes closed to the peculiarities of the national economic structure and to the exigencies of a situation pregnant with dangers of unusual dimensions: the sudden end of American prosperity in 1928

—*Economic Journal*, 1936, pp. 277–8.

In Japan we have had an instance of inflation accompanied by exchange depreciation but not by higher prices at home, thus leading to a temporary revival. J. C. Allen writes in *Economic History*, Vol. 2, pp. 646–8:

Immediately after the abandonment of the gold standard, wholesale prices rose; but in March a decline again set in, and by July the Bank of Japan's index was lower than it was at the end of 1931. In this respect events have followed a course similar to that in Great Britain. But whereas here the crisis brought a Government committed to a deflationary policy, in Japan it led to an abandonment of that policy One of the first acts of the Government was to suspend sinking-fund payments and to throw over the Minesito proposal to increase direct taxation. The present administration is faced with a huge budgetary deficit, since it has to meet the expenses of its Shanghai and Manchurian operations, as well as the cost of valorisation schemes and of its assistance to depressed classes of producers In the spring the Treasury advanced large sums to the provincial banks for the relief of distress, and it has recently lent 20 million yen to the new Manchurian Government. To meet these obligations more borrowing has been resorted to. The Government's policy appears to be definitely inflationary. It has recently abandoned its attempt to liquidate its holdings of silk acquired under the valorisation scheme of 1930, although the scheme was supposed to end in July 1932. The Bank of Japan has been permitted to increase its fiduciary issue from 120 million yen to 1,000 million yen; the obligation on the part of the Bank to pay a tax on that issue has been removed, the tax on the excess issue has been reduced; and, more recently, the bank rate has been lowered. These efforts have not yet led to an upward price movement; but they have accentuated the loss of confidence on the part of the business community. The flight from the yen appears to have been renewed, and the exchange has fallen from near parity in December 1931 to $ 23 at the present time (Sept. 1932), that is to say, in nine months it has depreciated by 54 per cent.

I should sum up the situation as follows. During the post-War period the Japanese Government pursued its traditional expansionist policy at the expense of financial soundness. It was able to pursue this policy for so long for two reasons. Japan was assisted in the early post-War years by her foreign balances, accumulated as a result of her export surplus during the years 1914–19, and later by the huge growth in certain of her leading exports. But this growth rested on precarious foundations, which collapsed just at the moment

when the country was suffering from the adjustments consequent upon her return to gold. "American prosperity" was shattered, and with it the silk export trade; China and India raised their tariffs against Japanese cotton goods; resistance to penetration in Asia was renewed in the form of boycotts which damaged exports of manufactures and involved the expense of military and naval operations; the series of good rice harvests was broken; and, finally, Great Britain's abandonment of the gold standard robbed Japan of some of the competitive advantages which she had long enjoyed. Financially the country is now in a chaotic condition. She is faced with a large budgetary deficit. Her policy in Asia is placing a greater strain on her finances than they can bear, and is yet being followed for the sake of political prestige and the economic advantages supposed to be conferred by political control. And the large financial reserves which she possessed ten years ago, and which might have helped her to meet this conjunction of misfortunes, have been dissipated by the reckless policy of the last decade.

Expansionist Borrowing and Lending

Joan Robinson refers to different results in different countries of an expansionist policy while reviewing *Monetary Experiments* by R. A. Lester:

> The author is opposed to orthodoxy, in the sense that he favours expansionist policies and regards the fear of inflation as mere superstition when slump conditions prevail. .... In certain colonies, for instance, paper currencies were introduced by means of Government loans to the colonists. This led to a fall in the rate of interest. In Pennsylvania, after the issue of 1723, the rate fell from 8 per cent. to 5 per cent. In New York, in 1737, "the Usurers....were not pleased with an Act which in its consequences might reduce the general interest on money, and they foresaw their money at 6 per cent. from whence I (the Governor) promise myself the pleasure to see Trade and Ship Building revive and flourish." In each case a revival of activity followed the new issues. Dr. Lester treats these issues as though they resembled a government deficit financed by creating money. But the governments were lending, not borrowing.
>
> The closest analogy would appear to be with the introduction of co-operative credit in a financially backward community. The colonists gained a once-and-for-all benefit by exporting the gold and silver displaced by paper money, and the colonial governments were able to finance themselves, without taxation, out of the interest on their lending operations. All this shows the boldness and good sense of the colonial governments in the face of slump conditions.... Dr. Lester agrees with other observers in giving the main credit for the Swedish revival after 1933 to the recovery in world demand for her exports. But at the same time he regards the expansionist policy of cheap money, intentional deficits and public works as making an important contribution to the revival.

The *Economic Journal*, 1940, pp. 280–1.

Rates of Interest and Social Advantage

How a mere monetary policy affecting the rate of interest could be successful only limitedly, is expressed by Lord Keynes thus:

> I am somewhat sceptical of the success of a mere monetary policy directed towards influencing the rate of interest. I expect to see the State which is in a position to calculate the marginal efficiency of capital-goods on long views and on the basis of the general social advantage, taking an ever greater responsibility for directly organising investment, since it seems likely that the fluctuations in the market estimation of the marginal efficiency of different types of capital, calculated on the principles I have described above, will be too great to be offset by any practicable changes in the rate of interest.

Again, there are limitations on the ability of the monetary authority to establish any given complex of rates of interest for debts of different terms and risks, summarised by Lord Keynes thus:

> 1. There are those limitations which arise out of the monetary authority's own practices in limiting its willingness to deal to debts of a particular type.
>
> 2. There is the possibility, that, after the rate of interest has fallen to a certain level, liquidity-preference may become virtually absolute in the sense that almost every one prefers cash to holding a debt which yields so low a rate of interest. In this event the monetary authority would have lost effective control over the rate of interest. But whilst this limiting case might become practically important in future, I know of no example of it hitherto. Indeed, owing to the unwillingness of most monetary authorities to deal boldly in debts long term, there has not been much opportunity for a test. Moreover, if such a situation were to arise, it would mean that the public authority itself could borrow through the banking system on an unlimited scale at a nominal rate of interest.
>
> 3. The most striking examples of a complete breakdown of stability in the rate of interest, due to the liquidity function flattening out in one direction or the other, have occurred in very abnormal circumstances. In Russia and Central Europe after the war a currency crisis or flight from the currency was experienced, when no one could be induced to retain holdings either of money or of debts on any terms whatever, and even a high and rising rate of interest was unable to keep pace with the marginal efficiency of capital (especially of stocks of liquid goods) under the influence of the expectation of an ever greater fall in the value of money, whilst in the United States at certain dates in 1932 there was a crisis of the opposite kind—a financial crisis or crisis of liquidation, when scarcely any one could be induced to part with holdings of money on any reasonable terms.
>
> 4. There is, finally, the difficulty in the way of bringing the effective rate of interest below a certain figure, which may prove important in an era of low interest rates; namely, the intermediate costs of bringing the borrower and the ultimate lender together, and

the allowance for risk, especially for moral risk, which the lender requires over and above the pure rate of interest. As the pure rate of interest declines, it does not follow that the allowances for expense and risk decline *pari passu.* Thus the rate of interest which the typical borrower has to pay may decline more slowly than the pure rate of interest, and may be incapable of being brought, by the methods of the existing banking and financial organisation, below a certain minimum figure. This is particularly important if the estimation of moral risk is appreciable. For where the risk is due to doubt in the mind of the lender concerning the honesty of the borrower, there is nothing in the mind of a borrower who does not intend to be dishonest to offset the resultant higher charge. It is also important in the case of short-term loans (*e.g.*, bank loans) where the expenses are heavy;—a bank may have to charge its customers $1\frac{1}{2}$ to 2 per cent., even if the pure rate of interest to the lender is nil.

PRICES AND WAGES: THE MONETARY BAROMETER

W. K. Duke and R. G. Hawtrey explain the powers of a central bank in regard to interest rates, prices, wages and the trade cycle thus:

By a Central Bank is meant an institution upon which has been conferred, by law or custom, the responsibility for the smooth running of the credit and/or currency system of a particular area (T. F. Gregory). It should have the monopoly of the note issue, hold the reserves of the commercial banks, have the power to buy and sell securities and to discount bills. The effects of the State's financial operations render it advisable that they should be under Central Bank control. *As the profit-making function of a commercial bank is inconsistent with the retention of a sufficient reserve of gold,* it is obvious that the note issue should be in the hands of a disinterested institution which is, if possible, divorced from the necessity of making profits. Again, cash being the basis of credit, it is well to concentrate demands for cash at a single point so that the credit structure is under the supervision of a single authority which can apply immediately any necessary remedial measures. A commercial bank, if it keeps all its reserves in its till, requires a larger reserve than if it keeps a balance with a Central Bank, provided that the Central Bank will use its resources for the common safety, should emergency arise. In periods of crisis, there is the need for a financially and morally sound authority which can be looked to for assistance. In sum the Central Bank is an institution which economizes the basis of currency and credit by:—

(*a*) centralising the gold and legal tender reserve;

(*b*) enabling commercial banks, discount houses and other financial institutions to keep a minimum reserve (balance at Central Bank and till money requirements) by offering discount facilities, etc., when needed;

(*c*) building up a superstructure of legal tender based on gold by issuing notes.

Centralisation of gold reserves provides a means of controlling the credit structure and the price level. We have seen that in this country the Clearing Banks are the most powerful financial institutions as regards resources and they allocate these resources in more or less stable proportions with a view to obtaining the maximum profit consistent with keeping those resources sufficiently liquid to meet possible withdrawals of deposits. Thus, the amount of advances in any form is more or less a fixed proportion of deposits; each advance made creates a deposit which makes possible further advances. This credit structure, however, is controlled by the necessity of maintaining the ratio of cash to deposits. The clearing Banks keep accounts with the Central Bank for the purpose of settling clearing differences,—they regard these balances as cash because they can withdraw legal tender currency in exchange on demand.

The Central Bank can operate on the credit structure by means of bank rate, because the Clearing Banks fix their terms for interest on deposits and advances varying with the bank rate For example, by raising bank rate, a restriction of credit can be effected because the rate of interest on advances rises, thereby discouraging borrowing and the higher interest on deposit encourages the deposit of funds, thereby increasing the proportion of cash reserves; day-to-day borrowing is discouraged and fewer bills come forward for discount. Should there be a glut of funds in the Money Market and bank rate prove inoperative, the Central Bank can sell securities and so take funds off the market and bring about a shortage which will cause market rates to rise This buying and selling securities is known as 'open market operations'.

The capacity to control the credit structure *via* the volume of deposits and advances, which represent purchasing power, leads to the implied imposition on the Central Bank of the function of taking care of the price level It can decide whether interest rates shall be high or low (provided that it is not hindered by external or internal disturbances) and so influence the balance between expenditure on capital goods and consumption goods, thereby influencing the course of the trade cycle.—*Bills, Bullion and the London Money Market*, by W. K. Duke, pp. 68–70.

The terror of inflation is due to want of a sense of proportion. The memory of the inflation remains, but the condition which brought it about have been forgotten. . . . When I was five years old, I was shown a picture of a ship sinking, and it was explained to me that a ship is all right so long as the water is *outside* her, but, when it gets *inside*, down she goes. Shortly afterwards I was crossing the Channel, and a few drops of rain fell on the deck. With the relentless logic of five years I jumped to the conclusion that the ship would sink. Exaggerated fears of inflation have done very great harm during the present depression and crisis. Many countries, particularly those of Central and Eastern Europe which previously suffered from monetary collapse, have clung to the semblance of a gold standard long after they have been quite incapable of sustaining the reality. They have been involved in a system of interference with imports through exchange control, quotas and prohibitive tariffs, of which the principal result has been that each country

has increased the difficulties of all the rest. At the same time, proposals made in England or America to relieve the depression by bringing about an expansion of credit have been met again and again with the objection that they would cause inflation. Every plan of improving the ventilation of the Black Hole is rejected on the ground that it would admit air. That is a degree of ineptitude which Surajah Dowlah, with all his moral and intellectual shortcomings, never attained. A simple criterion can be applied to determine whether any proposal for expanding credit is or is not legitimate. So long as it does no more than bring the price level into equilibrium with the existing wage level, it is beneficial The inflation is desirable. Indeed, people who regard the word inflation as necessarily having a bad sense would call this degree of expansion "reflation".

But the moment credit expansion goes so far as to require an increase in wages to put prices and wages in equilibrium, than there is an *illegitimate inflation. The symptom of such an inflation is excessive profits. What is desirable is a price level which just makes industry remunerative and fully employed. Any further rise of the price level is a departure from equilibrium.* (Italics are by the authors.)

—*The Art of Central Banking*, by R. G. Hawtrey, pp. 269–71.

Cyclical and Non-Cyclical Phenomena

W. F. Stolper analyses cyclical and non-cyclical phenomena in these words:—

An existing housing shortage is clearly of a non-cyclical nature and even more so is any policy of rent control. The fluctuations of incomes and the decline of the rate of interest is clearly a cyclical phenomenon. Monetary and tariff measures occupy an intermediate position.

The influence of monetary policy on the housing boom in Britain which largely took advantage of general depressed conditions, is discribed thus by the same writer:—

Where did the money come from? What, if anything, did monetary policy have to do with the turning point in general, and with building of houses in particular? Many of the factors discussed were present before 1931. Why, therefore, the upswing just then? Population started to move southward long before the turning point of 1931—32. Rents were high before 1931, building costs fell appreciably as early as 1927—29. Yet the great housing boom came only in 1931 and thereafter.

First and most spectacular is the abandonment of the gold standard in September, 1931, the consequences of which as regards prices, output, imports, exports, deposits, currency in circulation, etc., have been discussed in great detail by Prof. Harris. This, however, is only the most noticeable event. It is fundamental only in the sense that it

made possible other developments such as the abandonment of any deflationary policy. Hand in hand with the depreciation of the pound sterling goes the prohibition of capital exports, the prohibition of the floating of foreign loans, and the successful great conversion

Many effects of the depreciation may be, as it were, of a potential nature only. An operation of the dimension of the war loan conversion, on the other hand, has very tangible and immediate results For under the circumstances which prevailed in England it resulted in the immediate flooding of the domestic market with a capital not otherwise available, and in a reduction of the interest rate on Government bonds from $5\frac{1}{2}\%$ to $3\frac{1}{2}\%$, with the immediate and important consequence of a lowering of the whole interest rate structure It should be emphasised that the prohibition of capital exports, as applicable to England, was not—as in most other countries which resorted to similar measures—directed so much against temporary capital flight; it was rather a reversal of the century-old English tradition of foreign investment. What can be expected from such a reversal of the capital flow is, of course, stimulation of all industries producing primarily for the home market, and either a contraction or, at least, a retardation of the export industries. And foremost among the domestic industries stands the building industry

Along with the prohibition of capital exports and the depreciation of the currency goes the inauguration of a high tariff policy. Although strictly speaking not of a monetary nature, this has to be included here for various reasons. In the first place, its results are the same as those of monetary policy in the narrower sense, and hence could hardly be isolated statistically. In the second place, it lies in the same lines of thinking as the monetary policy proper. Both the monetary policy and the new tariff policy represent a reversal of the policies which were associated with England upto 1931 It was quite logical to reinforce by a high tariff policy the aims which the new monetary policy was designed to realise.

The Trade Cycle: Diagnosis and Prescription

The following is the diagnosis of and prescription for the trade cycle by D. H. Robertson .—

The distribution of productive resources between the consumption and the capital making trades is the result of the cyclical process from which we are seeking escape, and can neither be permanently taken for granted nor altered in the twinkling of an eye. Thus in respect of fulness of employment the 'normal' now speedily attainable is inferior to the normal of our dreams—the normal of the society which has never lapsed from an even rate of progress.... The only hope of attaining it lies in checking the cumulative expansion at some point selected with what judgment and wisdom we can, and then letting the slow process of occupational readjustment get to work. If, however, some such clean-up could once be effected, and a true Blondinian policy thereafter be pursued, we might indulge a reasonable hope for the future.

Nicholas Kaldor discusses the ratio between production of consumption goods and of capital goods and the effectiveness of a public works policy in avoiding a depression in these terms:—

> The present distribution of resources between consumption and capital making trades is not merely the outcome of cyclical causes: it is also—perhaps even largely—the consequence of the fact that, with our present level of productivity per head and our present distribution of income, only a high ratio of investment output is consistent with a high level of employment and real income. The only way of carrying out such a policy, therefore, is to stimulate the propensity to consume sufficiently to make the consumption goods industry go at full blast; and to prevent, at the same time, by means of a conservative banking policy, or taxation, or anything else, the output of investment industries from reaching beyond a certain moderate level. If the one could be kept prosperous and the other depressed, at the same time and for a sufficiently long period, the distribution of resources would be gradually altered. But this is a long-run policy which is likely to bear the stamp of failure while it goes on; and since it involves low (real) profits and high (real) wages, it is likely to be unpopular with certain classes. To secure that change in the distribution of income which is needed to give a much higher propensity to consume might appear as a policy of expropriation. And even if it succeeds, I do not think that we can hope from it the complete absence of cyclical tendencies: it would only ensure that fluctuations were confined to much narrower limits.
>
> It is thus a question of progress *versus* stability. And apart from the obvious gain in income-distribution, it is not at all certain, on second thoughts, that the first ought to be sacrificed for the second. We must bear in mind that a society which has a high state of technique, but a relatively small capacity in the capital making industries has a much lower degree of adaptability to unexpected changes. A Britain ruled on the principles of Mr. Robertson would be a more pleasant place to live in, but it would be in a much weaker position to resist unexpected demands of a Mussolini or a Hitler.
>
> Failing such a policy, we must put up with the fact that construction activity moves in waves and cannot proceed at an even rate. This does not mean that the depression need necessarily be very bad. There still remains the policy of making public investment anti-cyclical (concentrating all public works in times of slump), which theoretically could remove the unevenness of investment activity altogether. But I doubt whether in practice this could ever be achieved. Apart from great difficulty of correct timing, there is the fact that public works of the ordinary kind do not necessarily make use of the resources of the depressed industries; while public works of an extraordinary kind—introduced just in order to provide work for the unemployed—are hardly satisfactory as a permanent feature. Hence this policy—anti-cyclical public works—is to be regarded more in the nature of a palliative to the instability of the system, than its remedy.

Limitations of the powers of a central bank to minimise disturbances in employment and prosperity are summarised thus by Nicholas Kaldor:—

There is no *single* factor which brings boom periods to an end, but there are a number of such factors, and there is no reason to expect that in past history different boom periods were always brought to an end by the same cause.

A level of activity which can be called "full-employment-activity" might come to an end:—

(*i*) because rising interest rates check investment, on account of the fact that the banking system is unwilling to provide the quantity of cash needed to carry on the high level of activity (the credit-restriction case);

(*ii*) because rising interest rates put a stop to a process of cumulative inflation (the excess-investment case);

(*iii*) because the demand for consumption goods fails to expand sufficiently, with the increase in the capacity to produce them (the excess-saving case),

(*iv*) because equipment becomes redundant, owing to the scarcity of labour.

These four causes are likely to appear *successively* in time; the first two in the early stages, the last two in the later stages. Thus a boom is like a peculiar steeplechase, where the horse is bound to fall at one of four obstacles. If it survives the first, it might be checked on the second, the third or the fourth. It is probably a rare horse which survives until the last hurdle

A wise Government can remove the first obstacle by appropriate monetary policy, and it can remove the second and the third by an appropriate system of taxation But it can only suspend the operation of the last obstacle by reorganising the distribution of resources between different industries—though it could alleviate its consequences by making public investment anti-cyclical.

—The *Economic Journal*, 1938, pp. 656–7.

Central Banks and Economic Stability

Winfield W. Riefler discusses the validity of the belief that central banks should stabilise business activity and that they know how to do so, in the following passage:—

What has been injected into the field of monetary problems to throw the several contributions out of focus with each other? We may say that (1) the desire to use central banks as a medium for economic stabilisation has continued to gather momentum, and (2) the analytical foundations requisite for the translation of this desire into practice are still far from secure. In addition, a certain shift of emphasis has taken place which complicates the problem, a shift that is more difficult to define because the auhors themselves do not appear to be fully conscious of its implications. Until fairly recently, the possibility of using central bank action as a means towards stabilisation was regarded primarily as an *addition* to the other and older

responsibilities of central banks and not as a redefinition of these duties. It was still accepted for example that maintenance of the currency and of liquidity in the money market was a primary function of central banks, the requirements of which preceded in importance their responsibilities for more general economic stabilisation. It was also rather generally assumed that the most that could be asked of central banks was that they use their great powers as an *influence* toward economic stabilisation, not that they be responsible for its achievement. In much of the current writing on central banking, however, the powers and activities of central banks are treated primarily as immediate instruments of general stabilisation while their other responsibilities tend to be relegated to a subordinate position.

This shift in emphasis supplies an answer to our second question, "What omissions are responsible for the lack of focus in these works?" Traditionally, students of monetary phenomena have been concerned primarily with the requirements of financial stability and financial equilibrium. They have assumed, moreover, almost as a matter of course, that a correct appraisal of these requirements constituted in itself a contribution toward economic welfare... Taken by itself, the recent collapse is either neglected or tends to be treated as a by-product of economic instability, and almost no attention is accorded to the lessons which the experience might be expected to contribute to our knowledge of financial organisation.

Now, without financial stability and financial equilibrium there can be no economic stability or economic equilibrium. We have moreover in the experience of the last fifteen years, a rich body of laboratory material which would seem capable of being used to test our theories and especially adapted to a test of the adequacy of our concepts with regard to the basic requirements of a functioning financial mechanism. That material must be used, however, as a basis for a real testing, for a real evaluation of their relative merits, and not as a collection of facts in which one can find abandoned illustrations to support one or another point of view A failure to recognise this opportunity and to work this rich mine of experience has had the effect, consequently, of omitting from the picture the very phenomena with which students of monetary problems are most intimately concerned. It has also left relatively untouched the one field of activity which holds the greatest promise of bringing focus and unity into their work.

The deplorable condition of our financial machinery, and the inadequacy of our knowledge of the specific measures requisite for its improvement constitute a challenge to economists throughout the field of monetary problems. There is no school of thought in the entire range of current controversy that does not lay down as a foundation for the superstructure of its logic the existence of a functioning financial mechanism capable of surviving the strains it may reasonably be expected to experience. That mechanism does not exist to-day, nor has it existed during any of the periods with which current work in central banking is primarily concerned The pertinent fact of this period is not that costs were too rigid, or that the parties chosen for currency stabilisation were out of line, or that speculation existed, or that economic nationalism was rampant. These, together with

many other fundamental maladjustments, were all factors in the situation and contributed their quota to the experience as a whole. They do not account, however, for the appalling debt to which the depression ran. The rate at which the economic mechanism functioned for long periods during the 20's yielded abundant evidence that its capacity was sufficient to withstand strains such as these, uneconomic though they were. The outstanding fact of this depression is that during its course there occurred the collapse at many key points of the financial machinery of the world by means of which trade is sustained between countries, income is translated into consumption, and savings are translated into jobs. The economic distortions that are uppermost in our experience to-day and the utter stagnation of activity by which they were accompanied were inextricably bound up with that collapse In no sense can they be considered as isolated phenomena existing independently of their financial counterpart. It is idle moreover to treat the financial collapse passively as a result to be expected inevitably to follow from the strains present in the economic situation. Of course, it was "caused" by them in the sense that it occurred under conditions of pressure, and of course it was accentuated by the ensuing repercussions. The point is that a financial mechanism capable of performing its function in modern economic society must be capable of withstanding adverse economic conditions, conditions much more severe than those which were present as early in the depression as 1930 when the financial structure first began to crumble. The appearance of hoarding as a significant factor in the American economic situation, for example, dates not from 1932 and 1933, when the depression had reached such depth that bank insolvencies were to be expected, but from the autumn of 1930. In that year also the inability of the mechanism of our capital markets to maintain the flow of investments became apparent, while in the international field serious doubts began to arise with respect to the strength of the gold exchange standard. It is true that the world was in the midst of a depression in 1900, and that it was the decline in activity from the levels of 1928—29 which exposed these weaknesses in the financial structure. The actual level of economic activity, however, was still fairly high, and the depression had not progressed anywhere near a point that would justify major cracks in the pillars of an adequate financial structure.

Meanwhile, in the absence both of fundamental reorganisation of the financial structure and of an acceptable synthesis of current theories on the relation of central bank operations to economic stability, our central banks in all the leading countries are impaled on the horns of a dilemma. For the public has accepted as a fact the thesis promulgated by economists, not only that central banks should stabilise business activity, but also that they know how to do so. The quality of their performance will be judged in accordance with these standards. This is a type of responsibility that connot be argued away, no matter how relevant the considerations adduced, and the officers of central banks in the future, to a much greater extent even than in the past, will be bound to make their decisions in the light of the new responsibility.

It needs to be added that Riefler wrote these lines in 1936, by which time central banks had generally failed to save their respective nationals from the grip of the depression—perhaps because of their comparative inexperience. By 1943, however, these same central banks have achieved so much beyond expectations in gathering the sinews of war (see chapters *infra* on Economic Control and Post-War Planning) that if he were asked to write *now* on the effective strength of central banks to manage extraordinary situations, he should probably strike a much more optimistic note than in this extract.

Simple and Galloping Inflation: Germany and India

Whether an increase in the amount of currency and credit results in reflation or inflation depends entirely on the relative position of the quantity of currency and credit, velocity of circulation of money, the size of the national income, response by consumption, amount of saving, rate of investment and the efficiency of capital largely determined by Government policy. Dr. P. S. Lokanathan interpreted the present Indian position correctly in *Indian Finance* dated the 14th February, 1942, thus:—

> The shortage of goods in the face of a persistent demand for them has brought about inflation in prices..... The increased volume of money is merely the result of inflationary forces operating on the side of demand and supply of goods. The criticism against the Government cannot be that they have done anything actively to create the present price and monetary situation, but on that they have failed to act in the face of inflationary forces which are increasing the money incomes of the people with somewhat serious repercussions on the standard of living of different classes of the people.

Between the first quarter of 1920 and the last quarter of 1921, note circulation in Germany rose from 59,474 million marks to 122,497 million, the exchange fell in terms of the dollar from 1.645 cents per mark to 0.5117, the index of wholesale prices rose from 100 to 317, and with 1913 as the base year, the wholesale price index rose to 3,487. The note circulation in 1913 was only 2,902 million marks. Everybody points to Germany in those days as an example of the vicious spiral of galloping inflation. The figures lead to the conclusion that while note circulation rose to 206 per cent in the course of less than two years in Germany, the exchange fell to 31 per cent. clearly showing a much more than proportionate fall in exchange to the increase in note circulation. The price index also behaved in the same way. The note circulation increased to 206 per cent., but the price index rose to 317 per cent. The value of the total note circulation in terms of the dollar fell from 59,474 million marks in early

1920 to 39,515 million marks at the former exchange level, by the last quarter of 1921. Internally in terms of goods, the value of the notes fell from 59,474 to 38,612 million marks. Sight liabilities of the Reichsbank fell in terms of real goods by 43 9 per cent. showing clearly that a "flight from money" had set in. The fall in the gold reserve of the Reichsbank was not appreciable: it fell from 1,091 million to 995 million marks The gold par of the mark was 23.821 cents, and on this basis, the mark had depreciated early in 1920 by 93.09 per cent., and by December 1921 by 97.85 per cent. As the state of affairs has been often described, there was a race between the printing press and the rate of depreciation of the mark both internally and externally.

Note Circulation in India

In India, the note circulation rose from about 217 crores to 791 crores—from September 1939 to October 1943, that is, by 364 per cent. The exchange rate is unaffected on account of control. The index of wholesale prices rose from 100 in August 1939 to 334 in October 1943. Thus the rise in prices has been at a lower pace than the rise in note circulation It is true that prices did soar in certain lines, specially foodstuffs and clothing. This was due to hoarding: specially in the case of foodstuffs, the supply curve tends to go to the left upwards with increasing prices: the cultivators fear that prices might fly still higher and force themselves to buy in the market at higher prices: to make sure, they stock, giving a preferential treatment to themselves as consumers rather than as producers The rise in prices of clothing was due to capitalist interests working havoc among the consumers and declaring unprecedented profits, in the name of individual freedom and a competitive market. The prices should have risen still higher if there had not been a steep rise in liquidity preference. The sight liabilities of the scheduled banks showed a rise to 466 crores from 134 crores as between August 1939 and October 1943 A rise in liquidity preference is a move in a direction opposite to a flight from money

Thus, while there has been simple inflation which is quite unavoidable in war time in a politically dependent country like India, and probably desirable too as an incentive to economic activity, it would be incorrect to say that we have got galloping inflation in this country now, or at the corner. Against net dues to us, that we did not get gold or real assets or a repatriation of British capital invested in India—or even an assurance of the purchasing power now locked up in depreciating sterling—is a fact, but a fact which cannot be helped under these circumstances. The steep increase in note circulation was deplorable not quite unavoidable but it is not

absolutely bad in itself so far as India is concerned, at the present stage of her economy and the size of the circulating medium. The real trouble is that production has not been keeping pace with increasing money incomes, and we have ample opportunities for stepping up our production. Both Government and the public are responsible for this slackening: as the proverb goes, we are closing our eyes just when the oil is oozing in the mill. To give only one instance, a hundred crores should have been pooled together for the purpose of financing land mortgage banks throughout the country for positive constructive objects as well as debt redemption. This would have given great stimulus to production. On the contrary, we find men in authority singing the praises of a reduction in civilian consumption—in this country in which a high majority of people live *and die* below the physical subsistence level. The right thing to do is not to bewail unavoidables specially in war time, but to take to positive action for which we have ample scope We are in the position of the cocoanut seller in the weekly village fair, who wept when it rained—*because* his neighbour the salt seller wept. With a timely price-wage-profit stop, not even the semblance of inflation should have shown itself on the Indian horizon

What about the trade cycle in Hyderabad? As has been discussed in the chapter on Industrial Finance, we are in the unenviable (happy?) position of not owning a thermometer and therefore not being able to record the height of the fever when it comes on. Our statistics are so few and primitive that the first thought should be, not the analysis of the trade cycle, but the acquisition of adequate statistics.

A Note on the Genesis of Trade Cycles

A deailed discussion on this subject should be out of place in a treatise on central banking. Yet, for convenience of reference, it may be useful to recapitulate here the numerous factors at work which bring about the occurrence of trade cycles. The more important among them are:

1. The ever-present ambition not only to stabilise and maintain, but also to stimulate full employment:

Full employment as understood nowadays is not a pegged condtion, and improvement could be founded on empires (for the ruling nation), science (revealing the secrets of Nature) and/or economics (in distribution, maximum use and avoidance of waste).

2. The propensity to consume increasing at a lower ratio as income increases (except at the lowest levels) ·

3 The propensity to invest increasing at a lower ratio as saving increases:

4. The inclination of *entrepreneurs* to prefer the production of investment goods to that of consumption goods, as investment increases:

5. The process of expansion suddenly giving place to that of replacement or maintenance—which must cause a "drop" to the "bottom";

In the words of Spiethoff. "Once the empty vessel is filled, one has only to keep it filled":

6. Specificity of factors of production in that they could be used only for certain specific powers:

7. The need for complementarity among supplies of raw material, capital and labour, to the *entrepreneur* co-existing with peculiarities of each of these factors:

"Equipment deteriorates in a way labour does not":

8. The occurrence of inventions by spurts, which cuts both ways: it upsets the calculations of the *entrepreneur*, and it also encourages delayed investment:

"A sudden crystallising of the outlook is just round the corner": "It is the belief that knowledge, insight and foresight will improve, that causes apathy":

9. The impelling force of investment in stocks: for instance, the present position in India with regard to the stocking of food grains and cloth:

10 New savings, if nothing else, must lead to new investment without reducing the *entrepreneur's* safety or increasing liquidity·

11. Undue lengthening of the production technique, involving greater likelihood of miscalculations:

12. The elements of the time-lag and friction as among the different factors of production; for instance, labour troubles, and the response of the prices of consumption goods to changes in demand, which is much more sensitive than that by credit changes, interest rates, wages and capital goods: and

13. The "snowball process of cumulative synchronisation—towards either a boom or a slump.

CHAPTER XVII

ECONOMIC CONTROLS DURING WAR

"There are only economic and uneconomic ways of achieving given ends."—L. ROBBINS.

"Next to military and naval victory, a victory on the economic front is paramount."—PRESIDENT ROOSEVELT.

DURING four and a half years of the Great World War No. II the world has seen the most magnificent experiment—social as well as industrial—made possible by the mechanisation of war but for which even an outlining of the experiment should have been unthinkable. "Total war effort" implies not merely the maximum destruction of men and material amongst the belligerents, but also the maximisation of production with a bias for war man-power and material and maximum avoidance of waste (meaning non-war waste). It further implies drastic reduction in civilian consumption consistent with the preclusion of a possibility of a deterioration in the standard of life. The maintenance of the purchasing power of the currency is also an integral part of the war effort, for ensuring the maximum use of resources for production. "Economic control" is a huge laboratory with numerous apparatuses and tools, and different kinds of switches and plugs, propelled by the same power plant, operating in different sections and in varying ways, but all resulting in the same use, namely, maximum war effort of the best quality. Economic control is one integral whole, depending for success on the co-operation and co-ordination of the constituents. Grenville Holden wrote in 1940·

> Mr. Keynes' proposed "income-tax" loan and the case for direct rationing and exchange control are complementary devices having a single objective: release of economic resources for military purposes without inflation.

In the words of the *Economist,* dated October 21, 1939,

> No price control measure can be effective in an economy where such fundamental factors as the quantity of money, the level of interest rates, taxation and the amount of goods available are regulated on entirely different principles or simply left to look after themselves.

WHAT IS ECONOMIC CONTROL?

The main features of economic control as practised among the principal belligerents are these:

1. Victory in the war is the given end and the task is to achieve the end in the most economical manner, an axiomatic condition accepted at the same time being that there shall be no ceiling with regard to war expenditure.

Professor Robbins will not allow us to say that war was bad from an economic point of view. 'If the anticipated result is worth the sacrifice then there can be no economic objection.'—E. CANNAN.

2. Subject to adequate provision for victory, social stability shall be safeguarded through maintaining both a floor and a ceiling for prices, cost of living, wages, interest rates and profits. This objective is typified by the recent establishment in the U.S.A. of the Director and Board of Economic Stabilisation.

3. Social stabilisation shall be from the long-range view-point. Great care is taken in conserving the labour potential, the capital assets and the natural resources—so that when victory is won, there shall be minimum disturbance to social welfare. The industrial revolution in the eighteenth and nineteenth centuries, brought with it huge 'conscious' waste and severe class conflicts. War experience now must enable men to emerge from this war infinitely more sober with a really democratic psychology: the first sign of this is the Atlantic Charter. And the economic control system developed during war time is bound to be cumulatively accentuated in post-war reconstruction as well.

4 A closer contact has been established as between the administrative and the academic circles, the latter commanding nowadays tangible tolerance if not the respect of the former. Economists are busy setting for themselves *real* problems facing society: the arm-chair has been relegated to a corner.

5. Mainly on account of this, there is nowadays a great deal of publicity about both policy and data. The White Paper issued by the British Treasury (containing facts and figures about war finance) and the recent publication of certain figures by President Roosevelt in connection with the Anti-Inflation Act, are examples. This publicity helps the Governments in securing greater confidence and co-operation of the nationals.

APPARATUSES AND TOOLS

In practising economic control, the belligerents have invented a number of apparatuses and tools, the more important of which may be enumerated now.

I. NATIONAL INCOME

The supreme objective is to maximise production, specially of war material. The British national (personal) income rose from

£4,648 million in 1938 to £5,596 million in the calendar year 1940, and to £6,207 million in 1941. The national income of the U.S.A. is rising by 2 per cent. every month since January 1941. By February 1942, industrial production in the U.S.A. rose by 68 points (base period—1935-39). In India, on the other hand, the latest estimate (and that unofficial) relates to 1931-32, and the national income is said to increase by one per cent. per annum.

And then, a penny saved is a penny gained. Availability of products for war purposes is maximised by reducing civilian consumption to the rock-bottom level (subject of course to keeping the potential recruits healthy), prohibition of private investment, and disinvestment of capital. In Britain, the amount made available for war purposes by reduction in civilian consumption amounted to about £600 million at pre-war prices, and disinvestment and postponement of new investment and maintenance of past investment amounted to £1,500 million in 1941. Men and material are the parents of the national income. The *Economist* said:

"Money can be grown more easily than food."

Measures leading to economy of men and material are:

1. All men and women are registered for national service, of course by instalments. In some cases, even enemy nationals are registered on proof of their loyalty to their adopted country.

2. There are Employment Exchange Commissions and Labour Trustees who "comb out" skilled labour from industrial concerns and despatch them to other places where they are needed. Thus, labour "hoarding" is made impossible.

3. Products are standardised. For example, trams, paper, knives and clothes are reduced in variety in Germany, but production is enlarged by this both quantitatively and qualitatively.

4. "Excessive manufacturing and adding of value to cloth" is prohibited in Germany. Wholemeal bread and hand-pounded rice are other examples.

5. Available material is used for the longest possible time, as for instance, through freezing in the case of perishables and second-hand exchanges for shoes, clothing, machine and constructional tools.

6. Conservation and reclamation of raw material is another avenue for economy. Scrap relating to paper, rubber, oil, iron and copper is carefully collected and used for the concerned industries again. In Germany, 25 per cent. of used oil is claimed to have been collected.*

* Wholemeal bread is now used with a high content of B vitamin and I hope it won't disappear when the war is over. That would be as bad as a major defeat.—A. V. HILL.

7. Overtime labour and intensive cultivation also help in adding to output. Ninety-six hours in any two consecutive weeks is the present maximum in Germany. During the three pre-war years as compared to three years preceding, the yield of wheat in Germany was increased by 16 per cent, of rye by 13, of barley by 12, of oats by 16, of potato by 15, and of sugar-beet by 9 per cent.

8. Subsidy is granted for ensuring the supply of necessaries of life either by local growth or by import. Britain spends about £200 million per year on subsidising the growth of wheat and other bread-grains, potato and milk.

9. Other concessions, facilities, exemptions, guarantees and direct control are resorted to, suiting different situations. For instance, in Britain there is the Export Credits Act which offers special financial facilities for export trade which strengthens British position with regard to imports both of foodstuffs and military requirements

10. The "eat the surplus" campaign set up by the Federal Surplus Commodities Corporation in the U.S.A was not a war measure in the beginning, but must prove very effective in war time. This Corporation purchases excess stocks grown in the country of things like fruit, milk products, etc., and distributes it *free* through blue stamps to relief receiving families—whereby the latter get additional free superior feeding thus helping in the raising in the national standard of life, and the grower is saved from a collapse of prices.

11. There is a high degree of integration of food growth and war effort in Germany. Frederick Strauss writes:

> The use of prisoners and forced labour on German farms, the availability of French fertiliser supplies, the confiscation and utilisation of the conquered nations' rolling stock and transportation systems, their food deliveries as well as their enforced co-operation in the industrial field are strengthening the food situation in Germany and helping to sustain the total war effort

12. Rationing is taken to for enforcing a national maximum of consumption of the rationed goods. In Germany, consumption of food is estimated to have decreased by 5,000 million marks, and of manufactured articles by 9,000 million marks by February 1941, as compared with pre-war consumption per annum. More than three-fifths of retail expenditure in Britain is now within the province of rationing and civilian consumption was reduced by about £600 million at pre-war prices in 1941

13. Non-rationed goods are heavily taxed: in Britain there is the Purchase Tax which goes up to 25 per cent. in the case of luxury articles School children's collars, frocks and shoes are exempt, but if the boy or girl has a thick neck, is tall or has rather big feet, the exemption goes.

14. Regional equalisation bureaux work with the object of making every region self-sufficient as far as possible, thus trying to conserve shipping and railway space for war work.

15. Industrial research is carried on with particular reference to special problems of destruction as well as production.

16. Statistical publications are reduced, keeping on only those which are "necessary and justified": the saved labour and material are made available for war purposes

The observance of the *principle of priority* has added to production quantitatively, and to the more intensive use of a given amount of product in numerous ways, among which are the following:

1. "Old men's corners." Superannuated men and women are employed in kinds of work that can be done by them.

2. "Women's land army" in Britain. For increasing the cultivated area both horizontally and vertically in that country, women in villages are made responsible, thus releasing men for the front or other heavier kinds of work.

3. War work in kitchens and cattle sheds. In Britain, women of forty-four, many of them grandmothers, do war work along with their household duties.

4. Younger women are trained to do war work of all kinds including munitions manufacture: the only item excepted is actual fighting.

5. Modification of food plans In Germany, the following changes were planned in growth of food, with a view to maintain a larger population from a given acreage of crops. The "battle of agricultural production" was intended to produce in war years 11 million tons of bread-grains instead of 9 as in peace years, and potatoes were planned to be raised from 12 to 17 million tons annually On the other hand, meat requirements were reduced from 3 to 2.5 million tons, fat from 1.5 to 1.2, and milk from 7.5 to 4.5 million tons In Britain, all pastures and parks have been ploughed up in order to grow the largest possible wheat crop at home. A recent issue of *Indian Information* contains a picture of the ploughing up of the garden in front of the Government House at Peshawar but the question is how far such a thing is followed up throughout the country.

6. "Three million dogs eat 100,000 tons of bread per year in Germany." The use of breadgrains for feeding domestic animals is prohibited in Germany. Similarly, the civilian use of heavy and light metals is also prohibited in that country.

7 In Britain, fodder is made available first for ensuring the milk supply, then for maintaining cattle and sheep for meat, then for

pigs and poultry, and last for special farms depending entirely on bought fodder. In proportion to insufficiency, supplies are reduced or closed from the last item upwards.

8 Non-essential concerns are mostly closed down and small payments are made to them from the National Maintenance Levy for keeping the concerns in working order—just with the bare "*entrepreneur's* wage". "W" firms are encouraged in every way.

9. Maintenance of past investment is postponed. Fifty per cent. tax is levied on depreciation allowances made in annual accounts of businesses.

10. Private investment is prohibited so that material must be available for war work.

11. Luxury goods are so rare and so heavily taxed that for making presents (as in Christmas time), no "practical gifts" can be seen in shop windows. So, "evasion" goods like electric shavers, automatic record tuning gramophones and paintings, flood the market.

12. Transport priority. The coffin containing the remains of the Duke of Kent was conveyed from Scotland to London, according to Reuters, in an ordinary parcels van. Shipping space is not available without priority certificates issued by the competent authority.

13. Substitutes Buna, synthetic oil and egg, German "coffee" and "rice" (the latter containing 80 per cent. of potato flour), skimmed milk, "milk powder", vitaminised margarine, artificial pepper, "timber bonus" for works which take in more of timber in place of steel, paper made from potato leaves, lower prices for "Thomas" steel, 50 per cent. Government subsidy for industrial concerns changing from diesel engines to non-liquid (gas) fuels on the cost of the new equipment, the use of zinc instead of copper and tin—these are only some examples of home products taking the place of imported ones, or consumed on account of insufficient local production of the original article. In Madras, a groundnut-oil lamp has been announced, but in order to popularise this, propaganda by example as well as precept is called for.

II. Price Control

The competitive price structure plays but a small part even in peace time even in capitalist countries. In communal production for communal as well as competitive consumption, the cost-utility-price relation is blurred. In competitive production for competitive consumption it plays a prominent part in peace time, but during war, even in this field, routine pricing procedure must give place to positive price policy. Business price policy is superseded by public price policy, and "free" prices gradually give way to regulated, and then

to administered prices. The very objective changes when peace is succeeded by war: in peace, maximum social welfare is ordinarily considered identical with maximum consumption, but in war, the same ideal of maximum social welfare necessitates drastic reduction in civilian consumption. The three main elements in the "level of prices" are (1) the prices of industrial raw material, (2) prices of raw foodstuffs, and (3) the cost of converting material into finished products (including of course distribution costs). Price control in Britain is partial and is intended to mitigate social hardships while in Germany it is "total" and is the "central piece of economic policy".* The general idea is to save the consumer during war and the producer in the post-war slump. Effective price control has to take note of (1) the size of supply in relation to demand, (2) the different positions of different commodities in relation to demand, and (3) the elasticity of the supply of the factors of production in the case of each controlled commodity Price control ordinarily means stabilisation between a floor and a ceiling, but in special circumstances it might mean positive adjustment of the price level towards social stability. Compared to August 1939, farm prices in the U.S.A. rose by 85 per cent by September 1942, and yet there was a serious opposition to put an inelastic ceiling on further rises in farm prices during the passage of the Anti-Inflation Bill. As already mentioned, price stability might involve, as in the case of Britain, heavy annual subsidies, and heavy purchases of surplus stocks as in the U.S.A. In India, we are still at the gates. Mr. N R. Sarkar defined price control in this country as

> to strike a compromise between the imperative necessity of increase in food production by allowing prices to rise up to a reasonable level, and the equally important task of safeguarding the interests of the consumer. Thus, certain prices may have to be fixed low enough to permit the poorest consumer to buy adequate supplies of the proper foods, but high enough to enable the producers of marginal efficiency to contribute to the supply required, or again high enough to force consumers to use substitutes more easily available in war time.

This is little better than routine pricing procedure,† not giving any attention to supplies of the factors of production concerned and costs. It is no surprise that price control is still in the theory stage in this country. Of late, price control has become looser: more attention is being given to supplies.

Price control is of fundamental importance in tackling war- and post-war production. Full price control is an economic key function. On this depends the cost of living, and the latter in its turn proves

* See Note I at the end of this chapter.
† See Note II at the end of this chapter.

the most effective weapon against demands of labour for higher money wage rates. Higher wages not accompanied by corresponding increase in real goods available for civilian consumption must lead to inflation The Germans are most alive to this: their slogan is "price-stop: wage-stop: money-stop".*

President Roosevelt said recently:

> Even if a stabilisation of all prices and wages at the present levels is achieved, there would still remain great upward pressure on the cost of living created by the vast amount of new purchasing power.

The Calcutta index of wholesale prices which was 100 in 1914 and 108 in September 1939, rose to 349 in September 1943. Cereals and pulses fell respectively to 86 and 99 (base year 1914) in September 1939, but shot up to 572 and 449 respectively in August 1943, although slightly declining to 530 and 450 in September 1943. In Bombay, the cost of living index rose to 227 in September 1943 (base year ending June 1934). In Mysore, it was 171.1 in August 1943 (base year—1935-36). The cost of living index was 128.5 in Britain in April 1942 (August 1939—100). In the U.S.A., it was 112 6 in February 1942 (1935-39—100). But since May 1942, when the price ceilings were set, cost of food has been rising 3¼ per cent. every month. This was the reason for the quick passing of the Antoi-Inflation Act.

Among the numerous steps taken towards efficient price control are the ones mentioned below.

1. Supply control, prohibition of export except under license: imports by special negotiation: transfers from 'surplus' areas to 'deficit' areas: allocation of the supplies among a few licensed dealers, and maximum dishoarding of both past and current production from the public.

2. Regional maximum price fixation, based on average cost, transportation expenses, standardisation and/or cutting out the retailer's profit. Price control extends increasingly to services.

3 Up-to-date information about supplies and sales. In Germany, there is a 'paper war' due to numerous returns and correspondence—on which dealers have to sit long into the night

4 Rationing—simple, as per head or family, and differential,† in view of machine owned or work done.

The present food rationing system (in Germany) tries to maintain the differentials in consumption between average adult consumers,

* The stable currency is sacro-sanct and is considered part of the German capital which must on account be used up for financing the war.

† GERMAN FOOD RATIONS

The accompanying table shows the application of the principle of differential rationing to food in Germany.

heavy manual workers and extra-heavy manual workers, as they prevailed before the war. In 1936 and 1937, heavy manual workers consumed roughly 30 per cent. more bread, 70 per cent. more meat, and 120 per cent. more fat than the average adult, according to budget studies.—*Q.J.E.*, May 1941, p. 369.

Things have moved further after Pigou wrote All goods and services could not be rationed, for example, travelling, entertainments, drink, etc, and the section of population with even a slight margin naturally tries its best to have the better in these directions. Thus, the prices have tended to rise in these fields. An additional disturbing factor has been the stationing of Canadian and American troops in England. These troops have quite liberal amounts of purchasing power with them over and above board and lodging which they get in any case. The invasion of unrationed items by these troops has made prices there inflated beyond control A suggestion under consideration is that at least a part of the margin which these overseas soldiers carry with them should be blocked—to be used later on in their respective homes.

5. Points and coupons There are varying numbers of points required for woollen, woodwool and other suits in Germany. Tailors maintain numerous point deposits. Travellers' coupons and shop coupons are hard to interchange. Money is "vagrant" for want of use (little consumption possible: no investment). Ration cards have displaced money considerably.

6. Penalties. In Germany, convictions are numerous on infringement of orders. Not to have sufficient pressure in motor tyres, and running faster than 35 miles an hour are criminal offences. In March 1941, there were 3,975 convictions in Berlin City alone for infringement of price control orders. In India, there was recently an

Food Rations (Rations of normal consumer = 100)

	Bread	Meat	Fats
Children—			
0 to 3 years	49	57·1	66
3 „ 6 „	53		91·3
6 „ 10 „	75·5	114	*129·2
Youths: 10 to 20 years	115·5		†143
Normal consumers	100	100	100
Night workers and workers on very long shifts	126·5	157	110
Heavy workers	162	200	148·6
Heaviest workers	207	271	279

Note—Children up to 6 years receive the same meat ration, and children and youths from the age of 6 to 18 years also receive a uniform meat ration. For bread, the age of the normal consumer is put at over 20 years, and for meat and fats at over 18 years.

* For children from 6 to 14 years.

† For youths from 14 to 18 years.

A.P. telegram in the newspapers on the conviction of a merchant for evading price control!

III. The Wage Structure

Apart from the usual factors of marginal efficiency and marginal cost of production (that is, of living) which affect the wage level in peace time, with minimum interference from Government, other elements come in during war time. The bargaining power of labour in each industry, specially of military importance, exerts much influence. Secondly, labour in industries that escape Government control for a longer time, manages to secure fatter rises than in controlled ones. Thirdly, specialised labour like engineers for instance, demand rises in wages *just* for maintaining the 'differential' between their own wages and those of other lines generally compared. In Britain, higher wages in non-essential industries proved an impediment at one stage to the diversion of labour to essential industries. In December 1941, the policy of stabilising the cost of living by subsidising the supplies of necessaries was launched. In the spring of 1941, five million labourers were taxed, about 50 per cent. of the tax receipts being repayable after the war.

The aim has been to prevent the extra purchasing power created by extra earnings and increased wage rates from being spent.

Also in April 1941, the principle of increased wage rates for increased production was accepted. For example, the 'coal bonus' depends on the extra coal produced. In war time, even with "Essential Employment Orders" freezing the wage rates in essential industries, the wage roll tends inevitably to swell Compared to 1938, the British wage roll rose by 69 per cent in 1941, the contributory factors having been (*a*) increase in civil employment (numbers), (*b*) overtime earnings and (*c*) net increase in wage rates. In the third quarter of 1941 compared to the third quarter of 1940, hourly earnings of all workers in Germany rose by 5 per cent., of skilled workers by 5.3, of unskilled workers by 4.2, of skilled women by 7, and of unskilled women by 4.5. But weekly earnings of all workers rose by 8.6 per cent. The annual wage and salaries bill in the U.S A. has risen from 43,700 million dollars in 1939 to 75,000 million in 1942. In Germany, wages lost during alerts can now be demanded upto 90 per cent., and employers are compensated from the Unemployment Insurance Fund. It is a significant point that in Britain, the terms of remuneration to the ranks of the Forces are less attractive than in civil employment.

The following are among the measures resorted to for maintaining labour efficiency and at the same time preventing wage-induced inflation:

1. The Essential Work Order freezing wages in essential industries.

2. "Up-grading" of labour to higher earnings according to efficiency. Abolition of unskilled labour is the German ideal.

3. Grant of overtime allowances, separation allowances, rent allowances, and 'dowry bonus' in the case of domestic servants.

4. Taxes on wages above an exemption limit, as in Germany, and 'deferred pay' as in Britain.

5. Tying up the wage level to the cost of living level. In Britain, the wage level had risen by 26.5 points by April 1942, while the cost of living had risen by 28.5 (August 1939—100).

6. Diverting the huge increases in the wage roll from the consumption commodities market by stimulating savings

(*a*) 'voluntary'—for example, deposits in savings banks and interest-free loans and purchases of war bonds, and subscriptions to Christmas, Hurricane, Winter and other funds:

(*b*) 'forced'—(consequent on the non-availability of consumption goods belonging to the category of luxuries on account of relatively smaller production or higher taxation or both, and the prohibition or discouragement of private investment):

(*c*) 'compulsory'—through taxation and "deferred pay":

(*d*) 'collective'—through savings banks, insurance companies, etc.:

(*e*) 'automatic'—"the saver has no choice and the State need not bribe him": and

(*f*) *'iron'*—the special conditions for 'iron' savings being

(1) permitted only in the case of wage and salary earners and not businessmen and independent workers:

(2) exemption from income and wage taxes and social insurance contributions to the extent of the 'iron' saving: this very often means no reduction at all in wage on account of lower rates of taxation applying: Germany loses about £120 million per annum by such surrender of taxes on 'iron' savings, but she makes much more than this by way of borrowing from such savings:

(3) deduction is made at the source, and three months' notice has to be given for change in plan or cancellation of the saving:

(4) the saving has to be in units of £1 or £2 and not in small cash:

(5) in addition to standard amounts, overtime earnings also can be saved up to £1 per month; and

(6) the amount saved thus is blocked for the duration of the war.

7. Strikes and lock-outs are illegal, and all disputes must be settled by arbitration or through a tribunal.

IV. Monetary Policy

A. C. Pigou points out that between wage-induced inflation and deficit-induced inflation, the latter is more controllable. So far as ways and means are concerned, that has been done much more by increase in taxation and borrowing than by adding to the quantity of money in circulation. In Britain, the fiduciary limit was £630 million at the outbreak of the war, was reduced to £580 million in the succeeding weeks, and stood at the end of June 1943 at £1,000 million. Borrowings in Germany have been of late about 5,000 million marks monthly, and the national debt stands much in excess of 150,000 million RM. In India, during four years of war, currency has been added to by Rs. 574 crores while the war borrowing was about Rs. 200 crores. It is no surprise, therefore, that inflationary conditions are more conspicuous in India than either Britain or Germany. The *Indian Finance* said:

> The forced restriction of general consumption has not inhibited the general rise in prices. It is clear that inflation has not produced its own remedy.

The fact is that forced restriction of general consumption is mostly on paper in India. The bulk of the masses are out of the picture as they are much below the minimum standard any way, the higher classes led by the administration personnel have not shown any *real* reduction in consumption: one is reminded of Tony Lumpkin's lines:

> "When Methodist preachers come down,
> Apreaching that drinking is sinful,
> I'll wager the rascals a crown
> They always preach best with a skinful."

But for a short raising of the bank rate in England from 2 to 4 in September 1939, it has been at 2 per cent. throughout. In India it has been at 3 per cent. uniformly. In the U.S.A. it has been at 1. In Germany, it has declined to 3½ per cent. In Germany there is powerful propaganda against the hoarding of money: "money hoarders are war criminals". The different kinds of saving leading to reduction in purchasing power available for the purchase of consumption goods have been already explained. The *Economist* very appropriately commented at the time of the passing of the Prices of Goods Bill in Britain:

> The Prices of Goods Bill will be politically successful and economically sound only if it is regarded as one of the minor aspects of economic policy. If either by design or by negligence, the

present war is financed by inflationary means, neither this Bill nor any subsequent more stringent measure will succeed in keeping prices from rising. Indeed, in those circumstances, it would not even be desirable to prevent a rise in prices. For, if the Government is not going to raise the resources it needs either by taxation or by the borrowing of genuine savings, then a rise in prices is the only way in which the consumption of the people can be reduced to the extent necessary to set labour, material and capital equipment free for the purposes of war

Thus, the main features of monetary policy have been these:

1. The quantity of currency is more or less at a stable level.
2. The money market is easy.
3. Exchange control was once an experiment in Germany, but is now an established fact—even in India.
4. Private capital issues are done away with for the 'duration'.
5. The only 'free' items in the market are (*a*) real estate and (*b*) shares representing different kinds of property. In the latter case, all transfers of shares in Germany are to be registered after the outbreak of the war, and if and when a sale is proposed, the offer must be first made to the Reichsbank. Industry is "concentrated" and money is "vagrant".
6. Maximum amount of money is diverted from consumption to saving (and thus lending to Government) for war finance.

V. War Finance

Many of the measures relating to war finance have been referred to in earlier sections. It may be stated here that war expenditure in the present war has risen in direct proportion to the success of science in intensifying and expediting destruction. British expenditure rose from £3,884 million in 1940-41 to £4,788 million in 1941-42, and to £5,638 million in 1942-43. The deficit for 1942-43 in Britain is £2,716 million. The first four years of war have cost Britain £15,000 million, 40 per cent. of which was raised by taxation. In 1941-42, the tax receipts in Britain were £1,962 million: they were £2,483 million in 1942-43.

The ratio between national income and war expenditure is put at 50 per cent. 'equitable', and 70 per cent 'physical or psychological' limit, but with the rate of increase in national income going down, the margin from past savings also thinning out, and the daily war expenditure by the belligerents steeply rising month after month, it is not clear how the war will be financed if it should prolong to 1945. On the United Nations' side, there are the great potentialities of the U.S A. and the lease-lend canal, but how long, how far and how full this canal will flow is a question deserving special inquiry. On the German side, hope lies in the New European Order which is the civilised nomenclature for Europe being, however unwillingly, bled for Germany. In India, a percentage fixation of war expenditure in relation to national income should lead to ridiculous results as the

margin for any kind of saving or diversion from civilian consumption is incomparably smaller than in Germany, the U.S.A. or Britain.*

The important highlights of war finance may now be summed up:

1. There is a considerable common ground between war expenditure and civilian consumption, comprising the heavy subsidising of essential foodstuffs by Government, family allowances for service men, billetting allowances, and feeding, clothing and housing the forces (land, sea and air).

2. Reduction in civilian consumption. Already it has been mentioned that during the calendar year 1941, consumption was reduced in Britain by about £600 million at pre-war prices, compared to 1938. In 1942, the reduction was by £675 million in terms of 1938 prices.

3. High income and wage taxation, and high social insurance contributions as also "skimming" off of excess profits.

4. "Li-loans" from collective savings.

5. Tax-free 'iron' savings (already explained in an earlier section).

6. 'Blocked investment account' whereby 50 per cent. of depreciation allowance is blocked for the duration, with the concession that purchase of machinery *after the war* out of this blocked account will be exempted from capital taxation, in Germany.

7. Limitation of dividends. The claim is that by the accumulation of undistributed profits, the shareholder is becoming a rentier, in Germany. The surrender of excess profits is demanded as conscience money. The 'gap' between shares and debentures has disappeared with the limitation of dividends and 'share-stops' as in Vienna in October 1940. There is a clamour for capital increase, that is, watering of shares. In June and July 1941, 72 companies in Germany increased their nominal capital from £40 to £ 70 million.

8 'National compensation levy' for subsidising firms closed down for the duration

9. The levy of price control fees for permits, price-fixing and for granting exemptions.

10 Acquisition of dollar resources by Britain by disposing of British property in the U.S.A. after compulsory purchase by the State of American securities and shares held by British nationals.

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* Mr. Geoffrey Crowther, Editor of the *Economist,* estimated that the cost of the war had been approximately the same in Britain and the U.S.A. Britain in 1942 devoted 48½ per cent of her total pre-war annual income and the United States 47½ per cent. "In the United States war, the effort is met by increased production and consumption. Here we met the situation from three sources—just over one-third from increased production, about one-third by reduction of consumption and one-third by drafts on capital at home and abroad"

Britain is securing this way about £1,000 million per annum of dollar resources with which she is buying war material from the U.S.A.

11. Free gifts. Canada has made a free gift of £225 million to Britain in 1942-43. The accumulated sterling balances held by India in England may raise a similar issue at a later stage.

12. In the case of Germany, occupation charges of parts of conquered countries is a mentionable source of revenue In the earlier months, it was 400 million francs a day against Vichy France. Also, grants to local bodies are reduced with permission to reduce amortisation and reserve requirements but not permitting additional local taxation

13. Lease-lend and reverse-lease-lend whereby resources of the United Nations are being mustered at the different fronts without reference to national boundaries, the accounts of which will in all probability be scrapped in commemoration of victory, after the war.

A few suggestions for India are:

1. Allowance of instalment purchases of Government securities (specially war bonds).

2. Raising the insurable age in India. At present it is 45 in Indian companies, but many foreign companies working in India insure upto 65.

3. Governments running life insurance for the public, as in Mysore and Hyderabad (in the latter case, just sanctioned).

4. Governments organising pension schemes for the benefit of the general public in India. In the advanced countries, social insurance is much too forward to allow room for this

THE POSITION IN INDIA

I. Determining Factors

Some of the important circumstances that determine the scope for economic control in India may first be cited.

1. The area of the country. Many things that are being done in Britain prove hardly thinkable in India on account of the distances and the strain on communication and transport facilities on account of war work.

2. The fitness of the people for economic control. It implies a high degree of discipline and public morality. It implies a high level training. *Pax Britannica* and the spirit of personal liberty so studiously nurtured by British rule in this country has led to national coma.

3. The confidence enjoyed by the Government of India on the one hand of the British Government, and on the other, of the Indian

people. Policy of the Government of India there is none. They have to carry out orders from the British Cabinet, and thus statements made by the Hon'ble Members of the Viceroy's Council are no better than the King's Address to the British Parliament which is written and read for the King.

4. The kind of administrative machinery. We have been endowed with a number of 'advisory' boards and committees and while the agents of the British Government (including the United Kingdom Commercial Corporation) carry on dictates from Whitehall, these 'advisory' boards and committees yawn and yarn once or twice in the year. We have the Defence Council which is advisory, the Central Civil Supplies Board, the Central Food Advisory Committee, the Price Control Conference, and not less inert, the Economic Consultative Committee.

5. How far war is—by physical distance, and by psychology. Indian 'frontiers' were pushed outward to Singapore (till the Japanese occupation), Egypt and the Middle East, but the war is still out of India.

6 The stakes involved. In Arthur Young's words, "the magic of property" has not been there in the Indian mind and, therefore, there is no stirring of imagination of the people. They are shrewd enough to understand that they have not got much to lose either in prestige or in standard of living by vicissitudes of war. The subsidiary system of Wellesley is still continuing intact, and India has to pay the war expenditure as determined by the British Government in the interests of India (as defined by that Government). The Finance Member does not know how much would be allocated as India's share out of the Rs. 2 crores a day of war expenditure now being incurred by the Government of India This would largely depend on the definition of the Indian 'frontier'. The United States frontier (Summer Wells' 'frontier of human welfare') has been definitely established in India—at least for the duration. The Finance Member very apologetically remarked in the Central Legislature:

> Might it not be that on a review of all the circumstances and particularly if they had knowledge of the point of view taken by the other principal party in this matter—His Majesty's Government—all their efforts would be concentrated on endeavouring to maintain the present basis?*

* India spent Rs 715 crores on her defence and supply during the five years 1939-40 to 1943-44, according to figures available. During the same period, His Majesty's Government helped India with a sum of Rs. 926 crores under the terms of the Financial Settlement concluded in September 1939, between the Government of India and His Majesty's Government regarding the allocation of defence expenditure between them. The total defence and supply expenditure brought to account in India's books is thus Rs. 1,641 crores. India's defence expenditure has increased from Rs. 50 crores in 1939-40 to

The fact is that if the defence forces are manned by Indians and equipped by Indians with the products of Indian industry (and may we add, intended for the *defence of India geographically?*), the incidence of the burden will not be felt.—*Indian Finance.*

7. The available margin for sacrifice and co-ordination. The Indian raiyat has not been exterminated sheerly on account of kindly Nature in India Otherwise, it is only urban India that is interested in this item.

8 Efficiency of publicity. Many vital facts are not made known to members of the Central Legislature.

9. How far authorities in India are conversant with economic control technique as practised in Britain, Germany and the U.S.A. Already one specimen has been cited, namely, the different connotations attached to 'price control' in India and in other countries

10. The touch between administrative practice and academic theory. Academic theory and research there is little in this country, and there is a general atmosphere of awe on the one side and suspicion on the other.

WAR BENEFITS

We may now proceed to catalogue the points on which some benefit has been realised in India in connection with economic control.

1. Exchange control (although for the benefit of Britain *at the expense* of Indians).*

Rs. 220 crores in 1943-44 while Great Britain's contribution has gone up from Rs. 4 crores to Rs. 345 crores during this five-year period. India's total expenditure, civil and military, during the five years aggregated Rs. 1,005 crores. On the pre-war scale (1938-39 expenditure) the total normal expenditure for the above five years should be Rs. 426 crores. This extra expenditure of Rs. 579 crores should directly or indirectly be attributed to the war. India's total defence expenditure of Rs. 715 crores represents an increase of Rs 484 crores over the normal civil administration accounts for an incrase of Rs. 17 crores. Direct demands on revenue, it is stated, have not increased much at all. All other items of expenditure show in the aggregate a substantial increase. The increased expenditure of Rs 579 crores during the war period (1939-40 to 1943-44) over the basic normal expenditure is thus accounted for: increase in defence expenditure Rs 484 crores, increases in expenses of civil administration Rs. 17 crores, and aggregate of other increases Rs. 78 crores.

* EXCHANGE CONTROL

Exchange control in practice has varied effects on foreign trade as well as currency circulation Britain has defended sterling by might and main since August 1939 and the story has been told again by the *Economist* which shows that all Empire currencies have been defended with equal success. The British Treasury, by centralising all dealings in foreign currencies through the Bank of England, provided an example. The sterling area did not include Hongkong until August 1941 but, within the large area, freedom was retained. The Defence (finance) regulations were supplemented by financial agreements. Registered Accounts came into operation and Special Accounts were also created. Payments were restricted in order to prevent depreciation of sterling in neutral centres. In March 1940, official orders were issued to secure full payment in foreign exchanges for specified exports. Indian jute, South African diamonds and Scotch whisky became specially important in the Treasury's eyes

2. Steady bank rate, steady money and securities market.

3. Improvement in foreign debt position. We have paid off our sterling debt, but still have sufficient sterling resources even to repatriate a considerable portion of British capital invested in this country.*

4. Comparatively small deficits at the centre, owing to bigger revenues and infinitely smaller social responsibilities as compared to other belligerent countries.

5. The attainment of higher financial status both at home and abroad.

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as sources of hard currency. All trade was directed to procure additional exchange just as holdings of foreign securities were commandeered to strengthen foreign exchanges. Non-residents were given a chance to maintain their sterling area accounts Blocking of assets was, however, accepted as inevitable, but the blocking did not interfere with payments to be made for dependents, insurance premiums, donations, etc. The export of capital was prohibited and as from November 1940 repatriation of capital by non-residents was also forbidden, except proceeds arising from sales of Savings Certificates, Defence Bonds and Treasury Bill maturities The option to invest in British Government securities was given to holders of blocked accounts and interest payment was provided for.

The exchange control system was complete when arrangements were made in 1941 with thirteen Central American countries. Codification and composite forms alike were evolved by 1941 and the foreign exchange market became narrower after 1941 owing to the spread of the war. Even before the third year of war sterling had become strong as the "free" market was extinguished and the U.S. Government prepared for lease-lend. The Canadian war gift of $1,000 millions helped the sterling area then and since. The *Economist* concludes that wartime experience will help sterling after the war when control is expected to continue. Trade like exchange will remain under supervision; and the lesson for India is obvious. Free trade in treasure, export of capital and acquisition of dollar securities belong to a remote past. India's trade must be ordered with a view to the larger interests of the sterling area.

* INDIA'S STERLING ACCUMULATION

The persistent accumulation of sterling by India, and the consequent ability of that country to repatriate between March 1936 and January 1943, £284,000,000 out of the £376,000,000 of sterling debt, will cause less astonishment in the light of information given this week in New Delhi about the financial relations between the United Kingdom and Indian Governments. Sir Jeremy Raisman, the Finance Member, speaking in the Assembly on his return from a financial mission to London, announced that the following expenditure in respect of supply and defence incurred in India and been made chargeable to the United Kingdom Government:—

1939-40 actual	4 crores of rupees	(£3,000,000)
1940-41 actual	53 crores of rupees	(£40,000,000)
1941-42 revised estimates	185 crores of rupees	(£140,000,000)
1942-43 budgeted	387 crores of rupees	(£290,000,000)

This is in addition to free supplies of war materials by this country, estimated at £45,000,000 for the current financial year, and to increasing Lend-Lease aid from the United States Moreover, no part of the expenditure incurred by using Indian troops outside India had been or will be debited to Indian revenue With these heavy sterling grants to reinforce the considerable favourable balance of payments caused by the war, sufficient explanation is provided of the substantial net sterling income from which India has benefited since the beginning of the war.

This accumulation of sterling is still proceeding and the latest return of the Reserve Bank of India, dated September 11, 1942, shows sterling balances and securities amounting to £302,000,000. Three months ago these sterling

"Diseconomic" Control in India

"Uneconomic" is a neutral term, but here in India we have plenty of instances of diseconomies, not merely absence of economies. Some of the cases may be now referred to.

1. Economic stability is prominently absent. First we had a war boom, then shipping difficulties, then prices shot up of certain commodities, specially foodgrains and cloth, there were landslides in the prices of some other raw materials which could not find markets, and we have had the bathos of the Bengal jute mills after the hey-day in the beginning. After four years of war, we have begun to think of desirable steps rather in a sleepy way. Even the Bengal toll from starvation has failed adequately to rouse public opinion as well as Government. *Indian Finance* wrote:

> We are still in the stage of accomplishing in terms of paper and personnel than of production of the right articles in the right quantities and in the right time.

2. In spite of the groundwork cleared by the Eastern Group Conference and recently by the American Technical Mission, the War Supply Department has managed matters with no thought for the morrow.

3. Recruitment policy. Eighty and odd thousand missing, and 70,000 recruits a month—this is the climax of marshalling man-power in this country with 388 million people. Indian recruits are wanted on preparedness for 'overseas' service, and European and Anglo-Indian recruits are invited for service 'in India'.

4. Fallacies and failures of a miscellaneous type, Government themselves raised railway rates, there emanated heavy profits, and then they were compelled to agree to higher wages, and we have not yet seen the last of it. Prices of rice and cloth have soared very high, entailing great hardship to the poorer classes in the entire country, but the Government have tried to placate discontent by raising the wages of a few urban workers. The villagers are the silent

assets amounted to £245,000,000 and six months ago to £110,000,000. There is thus an ample balance in hand to tackle the redemption of the £78,715,000 of 3½ per cent stock—the only remaining sterling loan of the Indian Government—due to take place next January. Judged by the questions showered on the Finance Member, Indian opinion is becoming greatly interested in the problem of this continued accumulation of sterling at a time when the obvious opportunities for using it in the repatriation of long-term debt have virtually disappeared. Sir Jeremy Raisman admitted that there had been some discussion in London of using part of these sterling funds to acquire shares in Indian undertakings held by British investors With a little ingenuity, going perhaps to the lengths of mobilising Britain's direct investments in India, no difficulty should be found in providing for India every opportunity of using the sterling resources which, thanks to the war, are now flowing to that country. The difficulty will be to find the Indian investor prepared to take over this type of security.

sufferers—the landless agricultural labourers. The groundnut-oil lamp is the biggest achievement with regard to substitutes. Convictions of infringement are 'token'.

5. The absence of an enlightened public works policy. "War effort" is being interpreted very narrowly, and attempts like the automobile industry have been thrown cold water on. Railway workshops were commandeered for ordinance factories. Crores were spent on 'black-outs' and there have been 'light-ups' all round. A.R.P. and evacuee programmes change from week to week, thus insuring maximum desertion when the trouble actually comes.

6. While other countries like Canada, Australia and the U.S.A. have converted floating into funded debt, we here in India have changed over our funded sterling debt into rupee floating debt. Again, the price we have paid for the repatriation of sterling debt has been unreasonably high. If the rupee had been allowed to find its own level, or even if India had been allowed to purchase sterling in the free market out of the dollar assets due to her on account of purchases made on behalf of the United Nations, India should have saved enormous rupee resources in discharging her sterling debt. With regard to the utilisation of our future sterling accumulations, the two suggestions made by the Finance Member, namely, the capitalising of our annual sterling disbursements, and the earmarking of a Reconstruction Fund out of which to purchase plant and machinery after the war are both unacceptable from the technical view-point. While Britain is making the maximum possible use of dollar resources, for war and post-war purposes, the plethora of Indian sterling balances is being advised by British financial journals "to wait and utilise it for necessary purchases from Britain after the war."

Indian Finance is solitary in suggesting its use for repatriating British capital invested in Indian industry. This would enable India to get proprietary rights on her own assets, and also release sterling funds from which the British Government could further borrow. On the other hand, the question is being *seriously* asked:

"Will India's capital come forward to purchase such stocks?"

The plea for India's sterling assets to wait till after the war for making purchases of capital goods in Britain is inadmissible on the following grounds:

(*a*) The entire cost structure in Britain has already gone very high and India could not purchase capital goods from Britain on competitive terms even long after the war.

(*b*) Home problems there would be in plenty for Britain to face for several years after the war, and it would certainly take

a long time before Britain could manage to register orders and make deliveries to India.

(*c*) Sterling is fast depreciating in terms of the dollar in the 'free' market, and by the time Britain comes back to normal, the *real* value of India's sterling holdings must diminish sheerly by efflux of time. Argentine sterling holdings have been guaranteed by the British Government against further depreciation—although blocked for the duration virtually.

(*d*) It is doubtful how far Britain will command the raw material, labour and plant necessary for producing the large stocks of capital goods India might need—during and after the war.

(*e*) British investments in India are surely much more remunerative than sterling securities held in England for India

7. Huge sums are being spent on current maintenance of Indian armies abroad, but very little improvement is being realised with regard to capital items of defence The Indian Air Force, the Navy, ship-building and her engineering factories are in spite of claimed percentages of improvement (multiples of a zero are infinitely zeros!) not worth mention The Hindustan Aircraft is the only oasis in the desert. And American motors and planes and armies are swelling up in India, not to speak of the shiploads of Italian prisoners of war (who are on Indian standards prisoners of State). What a negation of the principle of priority!

8. Inflation. Specially in the course of the year 1943, a serious inflationary condition has been developing in India. In the course of the recent budget speech, Sir Jeremy Raisman expounded the position rather complacently thus:

> As the all-round rise in prices resulting from complex and interacting factors in war conditions tends progressively to lower the standard of living of every one, thoughts naturally turn more and more insistently to the causes of the trouble and possible remedies. Of late there have been a number of non-official communications to Government and pronouncements by economists, both professional and amateur, on this subject, according to which the source of the trouble is the arrangements in force for making rupee disbursements on behalf of His Majesty's Government and Allied Governments, and the currency machinery of the Reserve Bank is regarded as the conduit pipe of inflationary credit I feel it necessary, therefore, to state certain broad conclusions in order that the problem may be viewed in the right perspective

The Finance Member proceeded to lay down three postulates: that India's war effort had not reached its peak, that in the common war effort the usual methods of settling international indebtedness were not available, and that on the assumption of an Allied victory the Governments of Britain and India would be in a position to

pursue sound financial policies. "Without wishing to minimise the importance of the twin problem of sterling balances and inflation, I venture to suggest that on the above postulates we need not allow ourselves to take too pessimistic a view of the currency expansion that has taken place so far and that may be expected in the future."

In my opinion some of the fear which is now expressed arises from a failure to distinguish between pure credit inflation and the temporary situation in which an increase in the volume of purchasing power impinges for a time on a stationary or diminishing volume of consumable goods. Here in India I think we can say with a clear conscience that the Government has at no time resorted to credit inflation. The easy expedient of borrowing from the Reserve Bank has not been adopted for making up the revenue deficits of governmental budgets or for augmenting governmental balances for the purpose of meeting disbursements I have already referred to the *ad hoc* treasury bills through which repatriation has partially been financed, but I should not like the House to go away with the impression that this at any rate is credit inflation That very definitely it is not. At no stage of the repatriation programme has there been any expansion of currency against the *ad hoc* treasury bills created. These treasury bills merely replace the sterling against which currency had already been expanded in the ordinary course in order to meet legitimate demands for the means for making cash payments, and the substitution merely amounts to a readjustment of the assets of the Reserve Bank's Issue Department. The true position surely is that here is a block of investment waiting to be taken up by the nation for which it has been acquired.

Sir Jeremy went on to refer to certain misconceptions now prevalent on the subject of inflation A general rise in prices, he said, need not mean inflation. Not all Government disbursements on war purposes contributed to a rise in prices. He instanced the growth of short-term balances of banks as indicating a liquidity preference which tempers the rise in prices Moreover, in analysing the rise in prices regard must be had to the depressed level ruling in the years before the war.

Need for Saving

"That being so", he said, "I most earnestly deprecate loose talk and wild exaggeration in these matters; for they are the parents of panic buying and hoarding and these in their turn benefit only the profiteer and the speculator. There is the most urgent need for economy in personal expenditure at the present time, not only because lavish expenditure will raise the level of prices, but also because of the need for conserving supplies of scarce materials for war purposes A free flow of savings into Government loans will not only greatly ease the strain on Government finances, but it reduces competition for the greatly shrunken volume of consumers goods which is all that is now available. At the same time, it does not deprive the public of the opportunity ultimately of enjoying the fruit of present self-denial—in which respect it differs greatly from increased taxation. I am convinced that our sheet-anchor in the present emergency must be more and more borrowing."

But the following extract from the *Hindu* makes a comparative study of the situation:

The question arises how, if little more could be raised from taxation and borrowing is not easy, the future is to be faced. The Finance Member's statement makes it obvious that India will be altogether unequal to bearing the burden now sought to be placed on her. Even if it be considerably reduced, the position would not be easy. Unfortunately, Sir Jeremy Raisman's speech discloses no principles of war finance such as we find in the speeches of Finance Ministers elsewhere. It is perhaps worth while to note the more important of these. The sheet-anchor of war finance policy in modern countries—Britain, the Dominions, Germany, the United States,—is the maintenance of the home front in a state of efficiency. This means the supply of adequate food to all people; the building up of industries, capable of employing all able-bodied men and women to enable them to earn their livelihood; the ensuring of external and internal markets for the products of these industries; the maintenance of the stability of the currency by earning adequate foreign exchange, and the utilisation of the increased earnings to meet war bills through taxation and loans so that the nation may be able to pay as it goes about its business This is what Britain is seeking to do Every citizen of Britain to-day gets 3,200 calories as against the optimum of 3,000 fixed by the League nutrition experts. We note from the League's publication, *Wartime Rationing and Consumption*, that Britain is the best fed and the healthiest. The citizens are better fed and are healthier than before the war. Some of the essential foods are not rationed; bread, potatoes and vegetables could be bought in any quantity. In other countries, including the U S A., the Dominions, and Germany, similar conditions obtain. How great is the attention paid by Britain and the Dominions to industrial development and maintenance of exports is well known. New and gigantic engineering industries, as Dr. Roland Wilson, one of the Chief Economic Advisers of Australia, recently told Britain, have developed there which she hopes to maintain and foster. British agriculture will no longer be allowed to stagnate American shipping will be a force to be reckoned with by Britain, Norway and other maritime nations after the war. In Britain, the number of income-tax payers in the lower category of £500 has increased from 3,000,000 to no less than 9,500,000, and their income from £23 million to £270 million. Workers' earnings have increased by 47 per cent., while the cost of living has risen but by 20 points The position in India, on the other hand, is deplorable. The Finance Member refers to the rise in the industrial workers' incomes and the addition which the rise in prices must mean to the purchasing power of the ryot. He altogether ignores that the rise is more than set off by the rapid increase in the general prices and cost of living. In certain cases, the rise in prices has resulted in land being forced into the ownership of non-agriculturists. Viewed as the budget of the subordinate branch of His Majesty's Government, Sir Jeremy's may be understandable: India's resources have been faithfully marshalled to prop up the pound, aid British finance, and support British industries. In so far as these things

could be achieved, consistently with India's interest, none will object. One cannot, however, feel that the measures taken have been mutually profitable and of equal advantage to both The Finance Member's proposals cannot by any means be accepted as a national budget in the sense, say, that Mr. Chifley's budget is that of Australia.

The following extract from C N Vakil throw further light on this all-important problem of the day:

Compared with this we find that the price level has been allowed to shoot up to 238 in India in December 1942, the rise being particularly heavy during the year 1942. The actual rise in prices must be higher than indicated by the index number. Those responsible for making the index number would not take into account the prices current in the black market. In fact, they would not ordinarily know these prices As the black market is in several cases the predominant market, and the control prices operate only to a limited extent, the people on the whole are paying a much higher price for most commodities than indicated by the Official Index Numbers. So long as inflationary measures are adopted in the country, without adequate safeguards no amount of price control will have any effect. Under such circumstances price control becomes merely a cloak to deceive the people and throw the blame of the rise in prices on shoulders other than those of the Government. It is well known that price control measures adopted in this country have been more on paper than in practice; that there is confusion about the price control policy both among the officials who are supposed to work it and among the public who are supposed to benefit by it. The recent pronouncements of the Hon. the Commerce Member show that the Government of India are aware of their failure in this connection and steps are in contemplation to remove defects in the existing policy. It may, however, be pointed out that the only sphere in which the Commerce Department can help is by organising the food supply of the country so that there may be more food on he whole, and a proper distribution of the same. The Commerce Department will be powerless to control prices in general so long as the Finance Department is following a policy which must lead to an ever increasing price level. Even in the matter of food supply, it may be pointed out that there is a definite impetus to those who hold stocks to wait for a more favourable price, and as the price is ever on the increase, they may try to hold out as long as they can Hoarding of food will, therefore, continue and the problem of arranging for the dishoarding of stocks of food with inflation on the increase will present insuperable difficulties.

The Government of India are not unaware of the consequences of this inflation in which the country is involved. They have been trying to find small expedients which, however, cannot have an appreciable effect on the present position. For example, provision was made in the last budget for diverting part of the income of assessees in the lower grades of income-tax to war savings account. This, however, is not likely to yield much as the number of parties affected and the amounts involved are not large. Similarly provision has been made for encouraging those liable to Excess Profits Tax to set

aside a certain percentage of the tax to which a contribution from Government would be added, the amount so saved being repayable after the war. The exact effect of this will be known when the figures are made available at the time of the next budget. The Government of India also encouraged some of the Provincial Governments recently to issue loans of the aggregate amount of Rs. 7.75 crores for repayment to themselves of the debt which the Provinces owed to them This must have resulted in a small temporary relief in their rupee finance position They also paid sometime ago a sum of £30 million to the British Government in lieu of railway annuities which the British Government will pay on their behalf in future This will ease the problem of finding funds for these annuities when they become due in future and the Government has to this extent made good use of our sterling assets.

In connection with these expedients we may draw attention to the large reduction in Post Office Savings Bank Deposits and Cash Certificates, figures for which have been given earlier The withdrawals amounted to Rs 46 crores by the end of 1941-42. One wonders whether the measures mentioned above will make good this gap, let alone a net increase. This situation regarding the savings of persons with small incomes is a reflection of the loss of confidence of the people in the credit of the Government; it is well known that this loss of confidence is bound up with the political deadlock in the country to which reference will be made later.

Thus in India, economic control to be useful has got to be thoroughly overhauled after considerable 'purge' of presentiments and prejudices. This could be done only by a truly national government supporting a full-fledged Reserve Bank of India The Hyderabad State Bank has got the advantage of having to deal with a much more "national" Government than in British India.

Economic Mechanics

How to get clear of the strain in Hyderabad

1. Full and free co-operation in All-India plans and schemes is of course desirable—just as much as all-world co-operation, but charity must and does begin at home. If circumstances in Hyderabad warrant a better condition for the people than in British India, due consideration should be given to the security of the just claims of Hyderabadees before unconditionally sacrificing for all-India interests.

2 Much is being made of the scope for reduction in civilian consumption With regard to the masses, the problem is, how to raise consumption? About the aristocrats, the extra involved is not of serious dimensions. With the present high prices, the average consumer does not need any swan-songs about economy

3. There is considerable hoarding of stocks—specially of foodstuffs—by consumers proper, and by producers in the capacity of consumers. This is natural, and wisdom demands that such stocking

should not be interfered with. Most of the trouble is due to the dealers stocking with a view to speculate. The most urgent need is that Government should order a complete freezing of all dealers' stocks of food grains, in city as well as in villages. A great deal of the dealers' stocks is held in villages, earmarked for the concerned dealer. Close personal knowledge makes me say confidently that village officers in villages, and the Police in town areas, could lay their hands on such stocks efficiently.

4. The consumer must be relieved in two ways: firstly, the wilful speculator must be made to pay for his vicious avarice by allowing compensation for acquiring his stocks at reasonable rates (of course much below his purchase rates), and secondly, *and this is the most important thing,* Government must subsidise the acquisition of foodstuffs and clothing for the masses, and make available for the masses food and clothing at fair rates. To-day Britain is spending about £200 million per annum on such subsidies for maintaining the national standard of life, and the U.S. Government is spending over 1,000 million per annum on the same purpose. Rs. 2 crores per annum, so long as the present strain continues, should be a fair provision by Government for this purpose here.

5. How to get the funds? Recently the Hon'ble the Finance Member said that expenditure on education was really a very fundamental investment: if that be so (as it is certainly), the catering for the stomach in an emergency like this, must be viewed much more as an investment. If necessary, we must borrow, but there are numerous ways in which Government could raise funds by taxation.

6 To mention only one avenue, let Government tax all incomes of residents in British India, from Hyderabad, at British Indian rates of income and corporation taxation—both individuals and institutions. This is being done by the British Indian Government so far as we are concerned, and reciprocity requires that we must tax similarly. For instance, two and a half annas in the rupee is deducted out of remuneration for valuation of University answer papers from British India, before the remuneration is sent on to us in Hyderabad, on the ground that the concerned income is earned in British India The highest rate is automatically charged in all cases, and of course it is open to us to claim refund by showing that our respective levels of world-income are lower than incomes chargeable at two and a half annas per rupee. The Imperial Bank of India, the Central Bank of India, non-*mulki* shareholders in numerous other joint-stock companies,—all should pay on incomes derived in Hyderabad. Incidentally, one remembers with amusement that N.G S.R. Co. profits were charged E.P.T. by the British Exchequer although the Railway was of Hyderabad and the income was earned in Hyderabad.

7. Exchange stability is all right in normal times, but the present policy of Government buying without limit B G. currency at rates between Rs. 116 and Rs. 117 O.S. has the only merit of insuring the huge profits of the dealer *at the expense* both of the local producer (on account of the inevitable time-lag) and the local consumer. At the end of the last War, O S. currency had appreciated to 102 per B.G. Rs. 100 due to natural causes, and conditions now are if anything stronger from the view-point of Hyderabad. This present exchange stabilisation *without exchange control* has proved the highway for inflationary tendencies in Hyderabad in tune with the similar tendency in British India What is happening? Huge amounts of B G are being sold to Government, against the backing of which (considering that deposits of B.G. with the Imperial Bank of India are the same thing as accumulation of silver coin—which is *really* not at all the case) O.S. notes are flooding the country. Most of this capital coming in is refugee capital from British India wishing to escape from uncertainties there as also steeply rising taxation.

8. An appreciation of the Hyderabad currency in view of the strength of our balance of payments, on the other hand, should have discouraged such imports of foreign capital. To add, exports should have been discouraged and imports encouraged of merchandise (of course including foodstuffs and cloth) Exchange was deliberately depreciated *twice* in Australia for minimising the effects of depression. To-day, Brazil* is seriously considering the proposal for overvaluing its currency in terms of the pound sterling. This is exactly on the same grounds as prevail in Hyderabad. Even now, a policy of "hands off exchange" for the duration, must prove a barrier to the inflationary tendency being imported, and price levels should prove more easy to handle.

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* CURRENCY REVALUATION IN BRAZIL?

The favourable development of the external trade of Brazil, combined with the accumulation of foreign currency balances (£'s and $'s) has led to the question whether the highly improved currency exchange position might be used for fixing a higher price for the milreis (or its new equivalent—chuzeiro) in terms of pounds and dollars. The Brazilian economist, Professor Mario de Andrade Ramon, President of the Supreme Council of Brazilian Saving Banks, has recently expressed interesting views on this subject. He is of the opinion that the Anglo-Brazilian agreement of June 1940, which fixed the equivalent of the £ sterling and 80 milreis, and which has so far worked remarkably well, should be revised. The improvement of the general economic position of Brazil would, as he points out, justify a new equivalent of, say, 40 milreis to the pound · such adjustment would, as he says, not only combat inflation in Brazil, but would also forestall a later readjustment Since he expects that after the war is won the immense war expenditure of Great Britain and the United States would then demand a lowering of the exchange rates of these countries. Further, he stresses the fact that, after such a revaluation, the Brazilian Treasury would more easily build up its gold fund, the price of gold being then correspondingly lower in Brazilian currency. Although there are very few examples of successful deflations in financial history, the

9. The export of gold and silver should be prohibited. Of course there are notifications to this effect, but export has been none-the less on account of such notifications What is required is exemplary penalties and close scrutiny. At the same time, the Hyderabad State Bank should be authorised to purchase both gold and silver—keeping in view Bombay prices and the maximum possible difference that could be charged.

10. Lastly, Government and public in Hyderabad stand to gain immensely by studying how similar problems are being handled in other countries than in British India. Following closely what is done in British India might be the line of least resistance, but our circumstances here in Hyderabad do justify more radical measures and much less misery to the masses.

NOTE I

CONTROLLING PRICES

Three years of war have changed the foundations of the German price-stop system. Time and again it has had to be adapted to new conditions. The result is a mixture of stopped prices, maximum and minimum prices, and state subsidies to hold prices down. Price stability is still the official policy; but it is recognised that complete stability is impossible. German economy has been working ever since the price-stop was decreed in 1936 under conditions of rising costs of production in agriculture, in the coal and steel industry, and most of the substitute industries.

Since the beginning of the war, and particularly since the final concentration of industries this spring, the maintenance of closed down or restricted factories has added another charge. The policy of scrapping whole factories and the remelting of unused semi-manufactures in the metal and iron industry again means higher costs of production. Added to this is the lower efficiency of foreign workers All these increases could not be counterbalanced by the lower costs of mass production and rationalisation

Compared with actual costs, agricultural prices are entirely artificial The premiums paid to farmers for almost every product are either borne by the State or by a system of levies Premiums paid by the State are estimated at Rm. 1,000 millions annually, or nearly 10 per cent. of the total receipts from farm sales During the first two years of the war, rising costs in the coal-mining industry were compensated by increasing export prices This policy is no longer possible, and the coal-mining companies have been asking persistently for a rise in prices. In the iron and steel industry, a war premium is paid amounting to roughly 10 per cent. of the original steel price; the cost is partly provided by a levy

No control can change these hard facts, and even the fictitious price indices showed during the period from August 1939 to September 1942 an increase

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case of Brazil seems to offer fair chances of good results from such an operation, though not, of course, on the suggested scale The favourable trade balance for 1942 should amount to £25 millions, and the rate of accumulation of balances in pounds and dollars is still increasing The main problem would be that of adjusting the domestic cost, price and wage structures to the external value of the currency It has been estimated that a stabilisation of such costs at their present level would be compatible with a 20 to 30 per cent. revaluation of the exchange value of the cruzeiro. One advantage of such a move is that it would ease the burden of the external debt, and might well lead to an improvement on the terms of the settlement now in force.

of 8 per cent in wholesale prices and a rise amounting to 10 per cent in the index of the cost of living. Dr Fischboeck decrees reduction where rationalisation and concentration reduce costs But this field is very narrow, and affects only a small part of total output. The fixed or group price system for armaments has been partially successful in reducing inflated cost-plus-profit prices; and it is now being extended to civilian commodities, coupled with a general attack on cartel prices.

The economic press is divided on this problem. Some critics think that the system of group prices, if extended to the whole economy, would mean complete cartellisation because a group price is actually a price cartel Others think that it would be better to extend cartel prices to the whole economy on tradtional lines. Dr. Fischboeck himself has demanded a reduction in cartel prices, and threatened to dissolve all price cartels which maintain the old prices after December 31, 1942. There are signs that Dr. Fischboeck and his regional price controllers are no longer able to control individual prices; and the tendency to leave costing and the fixing of prices to the industrial federations becomes more obvious—which will make them competitors of the price cartels, a situation which was carefully avoided when the Nazis built up the compulsory economic organisation.

Price policy is discussed invariably in Germany against the background of the "classic" inflation after the last War Every now and then suggestions are made to alter price policy so that "overhanging" or excess purchasing power will disappear, or at least be prevented from increasing to alarming proportions. Agricultural circles suggested a general *increase* of food prices as the best means of mopping up the purchasing power. Industrial circles, on the other hand, want most of all an increase in the coal and steel prices.

Price Control

There are now three main price categories in Germany, stop-prices, cost-plus-profit prices and fixed prices for armaments. Dr. Fischboeck, the Price Commissar, has set up regional price control boards, responsible for the control of stop-prices for civilian commodities. The cost-plus-profit prices are based on elaborate costing regulations, and the fixed prices for armaments, which cover now roughly 1,700 armament manufactures and represent one-third of the total armament output in value, are fixed by the Government Departments. The main object of fixed prices was to reduce prices and to relieve industrialists from the cumbersome assessment of costs which was introduced at the beginning of 1939; the new policy seems to have met with some success, and Dr. Fischboeck is now contemplating its extension to civilian commodities. There is no indication of the principles on which the staffs of the different Departments determine the prices of armaments. Industrialists have repeatedly moved to send representatives to these bodies but have been refused. The economic groups, however, that is, the former industrial federations, are consulted

The main preoccupation of the Price Commissar at present is the prices of civilian commodities and foodstuffs. The press openly admits that the official price index has become largely fictitious. Prices for textile commodities and clothing, for example, are at least 50 per cent. above the prices of September 1939. Vegetables, fruit and most food substitutes have also increased considerably in price. Rents for rooms and flats have been rising for a long time. During the first two years of the war, the prices of unrationed commodities were allowed to rise unhindered in order to accelerate the depletion of stocks. Now one school of thought in the German press suggests that rising prices for civilian commodities would be the most effective policy for skimming off excess purchasing power.

Dr. Fischboeck takes a different line He wants to safeguard the price level; to prevent any tendency towards further increases; and, where possible, to reduce prices. Electric bulbs, window panes and a number of electric articles have already been reduced by from 6 to 12 per cent. in price; the prices of vegetables and fruit have been fixed, and the display of price lists has been made compulsory: There has been much talk about restoring confidence in the currency by maintaining stable prices Price control remains a cornerstone of Germany's controlled economy.

VAGRANT MONEY

At the end of March 1942, Germany's total debt stood at Rm. 142,030 millions The average monthly increase has been Rm. 4,500 millions, suggesting that, at the end of May, the total exceeded Rm. 150,000 millions, which was the total reached at the end of the last War. When the post-war inflation had run its course, this tremendous State debt had been wiped out; numerous small investors and owners of real estate simultaneously lost their investments or property; small savings disappeared; during the inflationary period itself, real wages were appallingly low. It is not surprising that the German people dread nothing more than another inflation. The slightest sign of an upward rush in prices jogs their unhappiest memories

Actually, conditions in 1942 are quite different. The comprehensive system of control makes inflation of the kind experienced between 1918 and 1923 impossible as long as the control measures remain effective. The wage stop has prevented any spectacular increase in wages. Severe rationing has not led to a dangerous excess of purchasing power among the great bulk of the working class The wages tax is 150 per cent of the pre-war rate. Working class savings have probably remained at the pre-war level. The system of iron savings introduced last autumn, which was in effect a reduction in taxes, shows that there was no appreciable margin of wages left for savings. There has been a large increase in small savings, but this comes mainly from small shopkeepers and small businessmen, who have either sold out their stocks or been concentrated

The monetary scene in Germany is ruled by the rise in purchasing power derived from the wartime liquidity of agriculture and industry This is the explanation of the heavy demand for shares. Shares were the only "free" commodity in Germany apart from real estate. The public looks upon them as *Sachwerte* (real value) and were naturally eager to invest the wartime surplus derived from greater earnings and idle reserves. The majority of shares in Germany are held by big concerns and companies; demand, therefore, exceeded supply, and, after many threats, shares acquired after September 1939, had to be registered. At the beginning of June 1942, a general call up of these shares was made possible by a special decree. Holders of registered shares may not sell them without roving offered them to the Reichsbank. If shares exceeding Rm. 100,000 in market value are called up, they will be exchanged for Treasury bonds, which will be blocked for the duration The Reichsbank will use the called-up shares to increase the supply on the *bourse*, if necessary.

Actually, dealings on German *bourses* have come almost to a standstill since the introduction of registration. Vagrant purchasing power is, therefore, seeking investment in house property and other *Sachwerte*, such as paintings, jewellery, *objects d'art* and stamp collections The demand for *Sachwerte* is not necessarily due to distrust in the Reichsmark. The tremendous demand for war production, since the attack on Russia, has put an end to the possibility of normal repairs and replacements in industry and agriculture. There has been another concentration of industry Idle money capital was bound to increase at a faster rate than before. The suggestion of abolishing depreciation accounts has been rejected, the proposal to close the *bourses* has not been accepted. Another remedy to curb the vagrant money is now being discussed. The Government, it is suggested, should no longer advance payments to private industry, but should leave the financing of public orders to the banks which are desperately trying to find an outlet for their enormous deposits.

Nobody in Germany believes that the country, if reduced to its former size after defeat, would be able to bear the present debt without crippling the entire economy The present policy in its monetary aspect is possible only because of complete control and because of the hope that the actual capital losses will be made good after the war by consolidating Germany's conquests—a hope which is reflected by the proposal in the press that the shares of companies in the conquered countries of Eastern Europe should be placed on the market.—The *Economist*.

NOTE II

INDIA'S PRICE PROBLEMS

The problem of price control has become more intractable than ever. It was, if at all, obscured only by the political crisis in August Since the beginning of the war, six Price Control Conferences—the latest being on September 7th—have met and achieved little beyond stressing the desirability of price control. Action was indeed taken in keeping down the prices of certain commodities Petrol has been rationed, and the prices of newsprint, iron and steel, rubber, matches, medicines and kerosene have been fixed. But in the case of essential foodstuffs, serious difficulties have arisen Even where supplies are known to be adequate to meet the normal demands of the country as a whole, shortage of transport interfered with distribution and led in many places, to severe scarcity, abnormal prices and black markets. Rice, wheat, salt and kerosene have recently had to be given priority for movement by rail, and the general situation threatens to become even more dangerous than during the last War The prices of rice and sugar, formerly imported from Burma and the Netherlands East Indies respectively, rose sharply with hostilities in the Far East. An attempt is being made to meet the danger of a rice shortage by a "grow more food" campaign. The change from the production of money crops—such as cotton, jute and oil seeds—to food crops may help to ease the situation considerably, but, until the results of the current agricultural season are assessed, little definite can be stated.

The efforts of the Central and Provincial Governments to fix and regulate prices appear to be successful only in the case of State purchases, and have been, on the whole, an index of intentions rather than of achievements. The wholesale prices for all commodities (July 1914—100) rose from 137 in June 1941 to 182 in June 1942, and again to 192 in August 1942. The increase has been even greater for sugar, other food articles and metals, as may be seen from the following table:—

Average Prices
(July, 1914 = 100)

	1942			
	Jan.	April	July	Aug.
Cereals	112	118	153	174
Pulses	127	120	151	166
Sugar	157	198	220	215
Tea	263	228	197	179
Other food articles	216	228	289	352
Oil seeds	108	104	162	167
Raw cotton	72	70	102	100
Metals	258	258	280	275
All commodities	153	157	182	192

At the beginning of the fourth year of India's war economy, the price control policy, if there is any, is still confused and amateurish. It betrays a conflict and competition of Central and Provincial objectives. That it has not been inspired as yet by economic foresight is clear from the fact that the price policy is still being tackled *in vacuo*. There is still no clearly formulated wages policy, and, curiously enough, the wage increases were initiated by the State itself by the grant of cost of living and other allowances, which have compelled a corresponding increase in the wage levels in industrial undertakings.

The question is being asked whether there is inflation in the country. Its existence was questioned by Sir James Taylor in his report on the Reserve Bank. Reviewing the facts and figures bearing on inflation—the course of prices, the extent of currency expansion, the increase in bank deposits, and the volume of bank clearings—he concluded that "although most of the recognisable elements of inflation are present, there is no evidence that inflation is present in the country in any serious form". The currency situation indeed

indicates a prodigious expansion in the note circulation. From Rs. 189 crores on March 21, 1939, the volume of notes in circulation has gone up to Rs. 493 crores on September 25, 1942, an increase of 161 per cent., and there occurred a further increase of Rs. 83 crores during April-September. There is no comparison between these figures and those during the corresponding period of the last War.

The principal reserves against this large note issue consist of gold coin and bullion, standing at the constant figure of Rs. 44 crores, and sterling and rupee securities amounting to Rs. 330 crores and Rs. 102 crores respectively. The steady accumulation of sterling assets has by now come to be more than 66 per cent. of the currency reserve against the note issue. Consequently, the policy of the repatriation of sterling assets is limited by the ability to increase the rupee securities in the reserve. Whether the money market can stand the present demands for financing Government requirements, and absorb the securities of the magnitude of the present figure of the sterling securities, is doubtful. But from the point of view of the protection of the note issue, the experience of the last War will certainly not commend the wisdom of keeping a high proportion of the reserve in sterling securities.

The Finance Member's recent visit to London appears to have led to the fructification of definite plans regarding the transfer of the sterling assets, and the recent announcement of an agreement between the British Government and the Government of India for the capitalisation of the railway annuities may be taken as an earnest of further measures According to the agreement, the payment of the railway annuities, terminating between 1940 and 1958, and amounting to a total payment of £34,114,654, will be effected by a present payment of a capital sum of £30,054,250 to the British Government, which will arrange for the annual amounts being made available to the Government of India for payment to the annuitants. The contractual liability of the Government of India still continues, while another agency, His Majesty's Government, is introduced into the picture The need for this can only be justified if the financial credit of the country were anything but what it is A more satisfactory course would have been a forthright extinction of the liability by a capitalised payment to the annuitants themselves. If the present agreement suggests a new method of repatriation of the sterling debt, there are very definite drawbacks to it, not the least being the effect on the currency and public criticism of such a policy.

The recent agreement and the payment of the 3½ per cent. stock on January 5, 1942, will liquidate almost entirely the sterling portion of India's public debt If the process is to continue, the next item will be the private capital of the company-managed railways. The policy of State management and the possession of the sterling resources enabled during the current year the transfer of two more railways from company management Notice has already been given for the acquisition during the current financial year of the Bengal and North Western and the Rohilkund and Kumaon Railways, which will leave only the Madras and Southern Mahratta, the South India, and the Bengal-Nagpur Railways company-managed. The sums involved in connection with the repayment of the private capital of these companies amount to less than £10 millions. The desire to reduce the sterling assets may lead to a transfer of these railways into State management in advance of the expiry dates of their contracts But as the amount involved is too small to meet the demands of the situation, the only course seems to be to approach the vast fund of private investments in the country It is exceedingly doubtful if this would offer an adequate solution as the conditions here are not analogous to those in the United States. British enterprise still forms the most organised section of Indian industry, and may not be easily replaced by national undertakings A compromise may be found in a partial liquidation of sterling investments, which could without material loss be repatriated, leaving a substantial sum still in the form of sterling assets. Nationalisation of public utility undertakings, such as electricity, gas, coal mines, etc., may be facilitated through a repatriation of investments in these undertakings, and this will cause the least disturbance It would be doubtful if the remaining industrial investments could be left unaffected In formulating the policy, it is necessary to take into account the needs of post-war reconstruction, which will imply a large amount of sterling expenditure when the war is over, and the possession of sterling assets larger than required under pre-war conditions will enable it to be incurred without undue strain on India's currency system.

CHAPTER XVIII

POST-WAR PLANNING

THE broad principles underlying the Atlantic Charter, the Lease-Lend and the Reverse Lease-Lend arrangement, the American and British plans for social security and for international control of exchange and capital movements, the Hot Springs Conference and the U.N.R.R.A. have roused in men's minds in all continents a new hope about the world that will emerge from the present war.

George Bernard Shaw said in a recent press interview that it was always the unexpected thing that happened. And the most unexpected is the delay in the victory of the United Nations. Although numerous steps have been taken already in different parts of the world, with a view to secure the benefits of the coming peace, and although the new views and activities connected therewith are of deep interest to the economist, it must be remembered that the subject of post-war planning is very wide and includes more than a hundred items each well worth a volume. All that can be attempted here is an enumeration of the more important issues. The whole subject is so huge that when one reads the bulk of sectional handlings of the subject, one is reminded of the six blind men and the elephant in the fable: each of the six blind men was made to feel different parts of the animal, and then asked to describe the animal—on which each of them described it as that part of it with which he came into contact. Again, the subject is highly technical, and in order to keep the presentation well within the reach of the lay reader, only broad trends are discussed.

THE GENESIS

At the end of the last Great War, 60 dollars cash and a free ticket home was all the reconstruction work that could be conceived of. The last War is said to have created many economic illusions which gave birth to the present war; but, on the other hand, the present war is claimed to have made the statistical background much more prominent and practical in spreading economic education. The present war has revealed two things to the world. Firstly, the misuse that could be made of science in killing human civilisation has turned the tide of opinion in the U.S.A. from the traditional isolationism into a readiness to defend "human frontiers". Secondly, the

achievements of the concerned departments of government in increasing production under the stress of war, has made the concept of the national income change over from academic playrooms to the centre of the political stage. National and war finance has become a fine art. The *real* income of Britain increased from £5,587 million in 1938 to £6,700 in 1942, and the national income of the U.S.A. rose from $88 billion in 1939 to $133 billion in 1942. A "comfortable old age" which was the ideal of industrial technique before, gave place to a ruthless scrapping of old and uneconomic methods. And, prices have become closely approximated to costs (which have been speedily reduced through the aid of science). In the words of the *Economist,* the closest degree of labour saving is the only way to save labour ... the reduced costs should find their full and immediate reflection in reduced selling prices both at home and abroad.

The following extract from *Plan for Reconstruction* by W. H. Hutt frankly pays the tribute due to the Nazi regime *in this respect*:

> The advantage enjoyed by the Nazi regime in the prosecution of total war arose mainly from the fact that the right to withhold productive power in the interests of capitalist monopolies and trade unions had been denied by Hitler. Hitler's strength on the production side has been mainly due to his having kept the cartels and the trade unions in subjection. In the democracies, on the other hand, the pursuit of "legitimate" profits, "fair" wages and security has led to widespread price and wage fixation, which in effect amounted to the same thing as a systematic restriction of output. The Nazi regime has ruthlessly squeezed out monopoly elements in prices, and compelled the closest continuous approximation of prices to costs, so that the right to withhold resources from production has been efficiently abolished. The whole object of price control with our enemy seems to have been to enforce the full passing on to the consumers of the benefits of all cost reductions and the prevention of higher charges for merchanting services.

This war has had a democratising influence which even a score of years of logic and argument could not have brought forth, both internally as between capital and labour, the rich and the poor, and internationally: comrades in arms have soon learnt to forget prejudices and discrimination: the repeal of the Chinese Exclusion Act and the voluntary surrender of special privileges in China by the British and the U.S.A. Governments for their respective nationals are proofs for the latter tendency. And the steep taxation of the rich and subsidising the standard of life of the poor by about £200 million per annum in Britain typifies the former influence. Economically as well as politically, the bankruptcy of isolationism has become patent, and numerous schemes for world participation have been put forward. The white man's burden has become more and more costly, and the fallacy of maintaining "eternal wards" has entered the heads of even

the big powers. Lastly, the needs of mankind, the methods of meeting them, and the cost to be incurred—all these have been very clearly analysed by statisticians and experts in the different spheres.

Public Planning an Accepted Instrument

The days of *laissez faire* have passed for ever. That policy has come to be looked upon as similar to political anarchy—as well in capitalist Britain as in Soviet Russia Public planning has different aspects and features according to local circumstances, traditions and thought. We have, for example, a few specimens here.

1. Visionary *versus* factual planning There are some who plead for "freedom for rest, recreation and adventure—for all mankind". The only thing excluded is the freedom of the wild ass!

2. Token *versus* serious planning In India, most of our public planning has been till recently "token" planning—more intended to establish the acceptance of principles than for actual and absolute enforcement. On the other hand, in countries like Britain and the U.S.A., things are handled strictly according to the blue print.

3. Playground *versus* hospital planning The former aims at prevention of social evils, and the latter at remedial measures.

4. Liberal *versus* totalitarian planning. The democracies and the Nazis pursue the two methods respectively.

5. National *versus* international planning.

6. Short-term *versus* long-term planning.

Several other names are used, but every kind of planning must come within the purview of the ones enumerated above. Oftentimes, shelter is taken by many behind the term "security", but by now, "security" has come to be understood universally, not as security of empires, of capital, of labour union interests, of anticipated incomes, of privilege or monopoly, but of the consumer.

The seven points of post-war economic policy as laid down by the League of Nations Delegation on Economic Depressions in its *War to Peace Economy*, are to assure:

(*a*) that the fullest possible use is made of the resources of production, human and material, of the skill and enterprise of the individual, of available scientific discoveries and inventions, so as to attain and maintain in all countries a stable economy and rising standards of living;

(*b*) that in so far as possible, no man or woman able and willing to work should be unable to obtain employment for periods of time longer than is needed to transfer from one occupation to another, or whenever necessary, to acquire a new skill;

(*c*) that in the use of these productive resources, the provision of goods and services to meet the essential physiological needs of all classes of the population in food, clothing, house-room and medical care is a prime consideration;

(*d*) that society distribute, as far as possible, the risk to the individual resulting from interruption or reduction of earning power;

(*e*) that the liberty of each individual to choose his own occupation is respected and is promoted by equal educational opportunities;

(*f*) that the liberty of each country to share in the markets of the world and thus to obtain access to the raw materials and manufactured goods bought and sold on those markets is promoted by the progressive removal of obstructions to trade; and

(*g*) that the benefits of modern methods of production are made available to all peoples both by the progressive removal of obstructions to trade and by courageous international measures of reconstruction and development.

The *Economist* wrote recently that while the last World War gave birth to economic illusions, the present war has marvellously improved the statistical background and thus is leading to sound economic education. The following passage from the Report mentioned above reflects the general constructive attitude in men's minds nowadays:

In regard to domestic policy, a great danger to be avoided is a runaway price-boom, which would be followed by collapse and unemployment. It is, therefore, urged that war-time measures taken to control prices and assure an equitable distribution of supplies, whether to producer or consumer, should not be abandoned suddenly but relaxed gradually as shortages are overcome. The main preoccupation is to get men re-employed and production redirected towards consumers' needs when the war demand falls off, as rapidly as may be possible without endangering general economic stability. Stress is laid on fiscal policies which will encourage enterprise and on schemes for teaching new skills for helping workers to find new employment.

The lack of any general plan for getting business started in the war-stricken areas after 1918 was, it is argued, an important cause of the economic breakdown and the collapse of currencies in Europe. The experience of that period demonstrates the imperative need both of government action and of inter-governmental co-operation in solving the far graver international demand for crude products, the international demand for capital and credit, exchange control and multilateral clearing, commercial policy, international organs; and a number of recommendations are set forth concerning the measures and the processes which their solution is held to require.

Two points are emphasised in conclusion: first, that means must be found for co-ordinating the policies of the various international agencies that may prove necessary; secondly, that, if wise economic policies are essential bases of a durable peace, the success of all efforts to create a better economic world ultimately depends on the firm establishment of political security.

EXPANSIONIST TRENDS

Among recent events pointing to a new world order are:

(*a*) The four freedoms of Roosevelt—the freedom of speech, the freedom of worship, the freedom from fear and the freedom from want (which last depends on adequacy of production, the right kind of education, the maintenance of good health and freedom from frictions):

(*b*) The Atlantic Charter which disclaims aggression:

(*c*) The American Lease-Lend arrangement—under which nearly 15 billion dollars worth of war material has been supplied by the U.S.A. to the United Nations, the repayment of which dues is as nebulous as that of the reparation payments after the last Great War:*

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* President Roosevelt in his twelfth report on Lend-Lease to Congress said: "Under master agreements with Britain, the Soviet Union, China and other United Nations have agreed to contribute to the defence of the United States by providing as reverse Lend-Lease all articles, services, facilities or information which they can furnish. Under these agreements all Lend-Lease supplies, such as, for example, merchantships or cargo planes which are not used up in the war, can be required by the President to be returned at the end of the present emergency."

"Article seven of the master agreements entered into with the United Nations that received Lend-Lease Aid provides that they will join with the United States in working towards some of the economic conditions which are a prerequisite to secure peace. Master Lend-Lease Agreements do not determine the final settlement, but leave that for determination at some future date."

The report said that these British expenditures were from appropriated funds which required financing either through taxation or borrowing: "They are comparable to expenditures made by the United States from appropriations for Lend-Lease purposes which include funds for capital installations in this country such as munition plants, shipyards and other facilities."

The message explains that the figures it gives for reverse Lease-Lend by the Governments of the British Commonwealth may be misleading because the rate of exchange used cannot always reflect comparable values in terms of purchasing power, man-hours of work or materials.

President Roosevelt's message says that during the past summer the United Kingdom agreed to extend reverse Lend-Lease and to include not only goods, services and information for the armed forces, but also raw materials, commodities and foodstuffs hitherto purchased for export in the United Kingdom and British colonies by or on behalf of United States Government agencies. Based upon estimates for the first six months of this year, expenditures by the British Commonwealth for reverse Lend-Lease aid to the United States are now at an annual rate of about 1,250 million dollars

INDIA'S AID

"While no official report has yet been received from the Government of India, our army reports total expenditures by India for reverse Lend-Lease aid of approximately 56,900,000 dollars divided as follows: Military stores and equipment 5,421,000 dollars; transportation and communication 3,161,000; petroleum products 13,127,000; construction 31,413,000, subsistence 3,778,000. We have received aviation gasoline, motor gasoline and lubricating oil and lesser amounts of other petroleum products from the Indian Government for use by the American forces. Part of the motor fuel has been used in a number of trucks and passenger cars given to our troops without payment as reverse Lend-Lease aid. In addition United States army groups have been afforded postal, telegraph and telephone facilities, water and electric power, furnishings for buildings and items of clothing, including mosquito and gasproof outfits."

(*d*) The Reverse Lease-Lend under which other members of the United Nations are supplying material to the U.S.A. and her forces in other parts of the world:

(*e*) The Canadian Mutual Aid Plan by which the Dominion of Canada has planned to develop international trade on a mutual benefit platform:

(*f*) The liquidation of the Comintern by Marshal Stalin—as a gesture to the United Nations of the attitude of the U.S.S.R. to world schemes which might be put forward:

(*g*) The resolutions of the Hot Springs Conference on World Food problems (this was the first time in recent history that an international conference unequivocally pleaded for 'right kinds of food for all mankind', and found 'no essential difference between Eastern and Western nutritive requirements') ·

(*h*) The Keynes and the White Plans for exchange clearing and exchange stabilisation, as also the scheme for an international bank for long-term lending:

(*i*) The humanitarian help being rendered to raided areas, occupied areas, and famine stricken parts of the world;* and

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STATEMENT IN COMMONS

Replying to Mr. Pethic-Lawrence in the Commons, the Chancellor of the Exchequer, Sir John Anderson, said that the figures given in the White Paper did not give a full idea of the help Britain had been giving to her Allies. "We furnish this aid without payment and, indeed, without calculation. Not the least valuable part of our mutual aid is of a kind to which no specific cost of production can readily be assigned. We learned much while we were fighting alone and the price was heavy. Those lessons and that experience have been, as of course they should be, freely at the disposal of our Allies

"When my predecessor was working on the White Paper he decided with the full approval of the Government that it is our duty and consistent with the conception of the pooling of resources that we offer the United States as mutual and without payment essential raw materials, foodstuffs and associated shipping services supplied by the United Kingdom and the colonies to the United States Government. This brings a whole new category of goods within the field of mutual aid. It means inevitably that our net external indebtedness will be as a result correspondingly increased.

"I have also taken the opportunity of this report to give some particulars of another aspect of our external financial burden, the vast scale of which is liable to be overlooked. Over the whole area from Tunis to the frontiers of Burma we are mainly responsible for very large cash outgoings to cover various local expenses of war which cannot be met by imported goods. Most of this we have to borrow and carry forward as a heavy burden into the times of peace."

* The following Reuter's message on Relief and Rehabilitation throws further light on the subject: A one per cent. tax on national incomes may be asked from the United Nations to raise a sum of 2,500 million dollars (about £625 million) wanted by the United Nations Relief and Rehabilitation Administration for relief work in liberated countries.

Britain's share would be about £158,853,000—about a quarter of the total. This percentage would be raised by contributions of the Dominions. The United States would provide some £375 million, but the amount would not

(j) The Beveridge Plan (details of which have been given in an earlier chapter) and the Plan by the National Resources Planning Board in the U.S.A.

Note.—Some details of these are given in Appendix D.

Restrictionist Remnants

We are not yet out of the wood. The reactionary elements are still quite powerful, and it is a matter far from definite as to whether these will suffer a defeat for certain. Among these are:

(a) The White Man's burden still savouring sweet: the defence of Malaya was planned with the help of White forces "on the Wilsonian principle": we hear loud calls like these—"Our markets must be maintained": "Britain means business": "We must develop new areas"; "Industry must have self-government".

(b) The persisting demand for "industrialisation" of India and China although the trade cycle spectre stares in the face and no one has yet been able to find a way out of it. the survey by the All-India Manufacturers' Organisation revealed that in 1940, a peace year economically speaking in India, large-scale concerns realised a profit

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be presented in a lump sum. The initial appropriation bill would be about £125 millions. Soviet Russia as a country which has herself been invaded would not be asked to contribute.

Under present plans the existing machinery already created by the Allies to control supplies during the war will be continued to prevent rush and inflationary buying after the war The British Ministry of Food, the United States War Food Administration, and the Combined Food Board of both the countries will take decisive action to prevent the liberated countries with ready money from rushing in and buying supplies to the detriment of those financially embarrassed.

British sources to-night indicated here that the U.N.R.R.A. will have to provide for 50 million destitute persons in nine wholly occupied countries in Europe. Experts of the Committee, headed by Sir Frederick Leith Ross of the British Delegation, gave this figure on the basis of secret estimates from Belgium, Luxemberg, Czechoslovakia, France, Greece, the Netherlands, Norway, Poland and Yugoslavia Some 50 million will be totally distressed, but it is pointed out that many more thousands from these countries will have to receive partial assistance.

India's Contribution

India's contribution to the Relief and Rehabilitation programme would be "comparatively small", an authoritative source said to-day It would consist primarily of cotton and finished textile goods which would probably be sent to Greece, Yugoslavia and other Mediterranean countries and burlap (coarse canvas) which will be needed for wrapping, in the extensive relief plan. The spokesman pointed out that India requires most of her remaining production for her own needs. Therefore, having regard to the size of the country, her part in the programme will be "relatively slight".

U.S. Congress asked for Appropriations

President Roosevelt asked Congress to-day to authorise appropriations for United States' participation in the activities of the United Nations Relief and Rehabilitation Administration. Before the meeting at Atlantic City ends, he said he would inform Congress of its result and ask appropriation for specific sums.

of 17.19 per cent.—which merely meant the displacement of a European economic bureaucracy by an Indian one:

(*c*) The migration policy of the "white" races: the most liberal view in Australia is that Asiatics should not be allowed to colonise Australia, but that Australians should go to Asia in order to teach the Asiatics to live better in Asia itself· the "pillar of the British Commonwealth of Nations"—Field Marshal Smuts—found it necessary to put the Pegging Act on the statute book even when Indian soldiers were shedding their blood on the African Continent itself, side by side with the armies of South Africa:

(*d*) The Atlantic Charter was soon after qualified by Prime Minister Churchill as applying particularly to European countries, and that document contains the important and highly elastic phrase "with due respect to existing obligations":

(*e*) The retention of gold as the basement of international payments in both the Keynes and the White Schemes—although it has been established beyond all dispute that not an ounce of either silver or gold is necessary for either internal or international currency: the U S A. has the biggest gold hoard, and the British Empire is the biggest gold producer:

(*f*) Similarly, the room allowed for regional *blocs* within a world plan for currency and exchange—which must mean the denial of an independent status for India (being presumed to be within the sterling *bloc*):

(*g*) The wide room contemplated for exchange depreciation as a means of maintaining external balance—of course at the expense of others:

(*h*) The highly liberal terms for repayment of "war balances" within which fold even the distress-earnt Indian sterling balances are being attempted to be classed:

(*i*) The loud and revengeful* cry for "economic disarmament" of Germany and Japan—which if realised must lead to World War No. III:

* The following telegram from Reuters, dated the 20th December 1943, shows how the revengeful attitude is still powerful:—

The authoritative air magazine, *American Aviation*, reported to-day that Mr Churchill and President Roosevelt decided at Quebec and Cairo to oust all trace of the aviation industry from the Axis countries after the war. The ban would apply to national air lines and civilian flying It was added that the necessary air service for these countries would be established by the Allies.

"It is known definitely", the magazine said, "that there will be no formal United Nations aviation policy conference until after the war or until other post-war problems are ready for formal consideration. President Roosevelt is understood to favour a wide latitude and freedom of transit for planes of the United Nations, especially in the use of air ports built for war purposes. He is stated to be opposed to monopoly for the United States international air transport, feeling that the field is too large for one company to handle alone."

(j) The Bengal tragedy co-existing with the almost feasting standard of life in some other parts of the Empire.

(k) The absolute absence of inflationary conditions in Britain looking on with complacency at the terrible inflation in India which is second only to the German inflation after the last War.[1]

(l) The move for a "tighter belt" in Britain being overshadowed by the demand for a still higher standard of life in that country after the war· the *Economist* deplores this dominant psychology in Britain as that of "the aged miser in the twilight brooding over his dwindling treasure":

(m) The growing differences between British and American opinion on issues like

(1) international currency and banking plans;

(2) "Britain being thirty years behind times in political idealism", and the U.S.A. "being thirty years behind times in political insight";

(3) the post-war frontiers of the U.S.S.R.;

(4) the post-war control on air bases which are vital to the U.S.A.,

(5) the status of the Baltic States and the defence of the U.S.S.R.;

(6) the declaration by President Roosevelt that the best coin in which lease-lend dues were expected to be repaid was victory, rescinded later from his report to Congress; and

(7) the complaint in the U.S.A. that lease-lend aid given to Britain specifically for war purposes was liberally used by her in assisting powers like Turkey, and that, without mentioning the source from which the material came:†

(n) The assumption by the big powers of the privilege to determine the "pace" and the "avenue" of development in dependent countries yet to be developed, with maximum attention to the needs of the big powers themselves, without much concern for the welfare and the feelings of the local population.

Dealing with the juxtaposition of buyer and seller in international trade, E. F Schumacher writes:

> The task is to achieve balance at the right level and that level should, as far as possible, be determined by those countries that are in need of, and willing to purchase foreign goods. This is the only possible meaning that can be attached to the 'Free Access' clause in the Atlantic Charter which promises 'enjoyment by all States, great' or small, victor or vanquished, of access, on equal terms, to the trade and to the raw materials of the world which are needed for their economic prosperity'.

[1] See Note I at the end of this Chapter.
† See Note II at the end of this Chapter.

Thus, according to Schumacher, at what "level" Britain should "balance" her external trade should be determined by buyers like China and India. But, on account of the political power of Britain, India is being seriously advised to follow the dictates of Britain in regard to imports from Britain and the utilisation of the huge sterling balances, thus Britain claiming the right to lay down the "pace" and the "avenue" of a full employment programme in this country.

SHORT-TERM PROBLEMS

There are several problems to be immediately looked to soon after the signing of the Armistice: among them are—

(1) Military demobilisation: there are more than 30 million fighting units actually on the different fronts, and a considerable percentage has been engaged for six months or a year after cessation of hostilities:

(2) Industrial re-adjustments—from war to peace industries, from war to peace scales, through research and aids:

(3) Gradual switching off of economic controls imposed as special war measures:

(4) The disposal of surplus war material and the adjustment of contracts:

(5) A purchase policy and a Public Works Policy suiting the slump that is bound to follow the war boom; and

(6) The deliverance of occupied countries from starvation and epidemics.

Each of these kinds of work should require several emergency organisations to tackle with the needed changes.

LONG-TERM QUESTIONS

Which is the kind of world in which we would like to live after the war, and what are the pre-requisites for securing such a world? The following are among the main questions that demand stable settlement without mental reservations:

(*a*) Military disarmament to zero point: otherwise, history should repeat itself:

(*b*) The setting up of an effective international police to *prevent* (and not merely remedy) international robbery and murder:

(*c*) The clearest definition of terms like "agreement", "penalty", "default", "sanctity of frontiers" and "sovereignty":

(*d*) The place of smaller and poorer nations in international organisations:

(*e*) The legitimacy of external finance and control in undeveloped areas:

(*f*) Agricultural policy. in Britain, the Scott Committee went into this question;

(*g*) Industrial dispersion. the Barlow Committee inquired into this problem in England:

(*h*) The standard of life and the form of government to be stepped up to in all parts of the world—with which is closely associated social insurance as also exchange adjustability and foreign investment; and

(*i*) "The releasing in full of productive resources" all the world over—for the common good of man.

NOTE I

The following passages from a recent address by the Viceroy and issues of the *Economist* and the *News Chronicle* on Inflation in India show up all the difference between the official view and the scientific view:

Referring to the problem of inflation in his address to a joint sitting of the Central Legislature on August 2, 1943, His Excellency the Viceroy stated: "One of the main problems which has to be faced by a country at war is the control of inflationary tendencies In the switch over from a peace economy to a war economy the mounting scale of Government expenditure inevitably increases the volume of incomes, while the goods and services available for civilian consumption inevitably contract. To accentuate the resultant loss of equilibrium between free purchasing power and the opportunities for its use, the possibilities of import become gravely restricted by the scarcity of shipping and reduced transport facilities. In any country a situation of this kind calls for the maximum effort of vigilance and control, if chaos is to be avoided."

Prices and Currency Circulation

Thus, arising as a consequence of the war, inflation, *i.e.*, progressively higher and higher prices—arose in India as a result of the increased purchasing power in the hands of the people impinging on a limited volume of consumer's goods available for civilian consumption. On July 30, 1943, notes in circulation stood at Rs. 740 crores, as against Rs. 172 crores on September 1, 1939. The general index number of wholesale prices (compiled by the Office of the Economic Adviser to the Government of India; base· week ended August 1939—100) which stood at 101 1 for the week ended September 2, 1939, rose to 240.9 during the week ended July 31, 1943.

The increased note circulation was necessitated by the increased tempo of industrial and other business activities resulting from the war. Particular mention must be made in this connection of the large-scale purchases in India by His Majesty's Government, which was paid for in sterling in England, against which rupees were issued in India for actual payments in this country

Thus the note issue is strongly backed by sterling, which is in accordance with the requirements of the Reserve Bank of India Act Sterling securities held in the Issue Department of the Reserve Bank of India have increased from Rs. 59.50 crores on September 1, 1939, to Rs. 582.87 crores on July 30, 1943—and this after the utilisation of a part of the accumulated sterling balance for the repatriation of the sterling debt of the Government of India.

Twofold Remedy Adopted

As inflation was the result of the increase in the purchasing power pressing against a stationary supply of consumers' goods for civilian consumption, the remedy naturally lay in mopping up the excess purchasing power and increasing the supply of consumption goods. Both have been attempted; the former (was endeavoured to be achieved) through increased taxation, borrowing and other anti-inflationary methods Efforts were also being made to increase the supply of commodities available for civilian consumption. To the

extent the price structure was accentuated by speculative tendencies, measures were adopted to put down speculation.

In the words of H. E the Viceroy, "the Government of India are determined to do everything in their power to check inflation and stabilise economic conditions at tolerable levels"

"The drive against inflation is being pursued simultaneously in the monetary and the commodity fields. On the one hand, an intensive effort is being directed to the mopping up of surplus purchasing power by taxation and borrowing, whether Central or Provincial, including a country-side savings drive, and the Indian States have also been urged to co-operate in this programme for the benefit of the whole country. Various forms of commodity control have been adopted, the most important, because of its effect on the cost of living, being the cloth and the yarn control scheme."

"The 'Grow More Food' campaign has led to an immense increase in the area under food crops and a vastly increased production of foodgrains. It is being urged on with the utmost vigour."

"The Government are also resolved to check speculation and profiteering in every sphere which affect the life of the nation and to repress and penalise all cognate anti-social activity" H. E. the Viceroy finally wound up this portion of his speech by emphasising that there was no room for complacency "We do not delude ourselves that this battle is over," he said. On the contrary, the campaign has only begun and we are determined to maintain the pressure and to fight relentlessly on every part of the anti-inflationary front. The stake is nothing more than the economic safety of the country; and no effort can be relaxed until this insidious danger has been removed."

Increased Taxation

With a view to securing a part of war finance through taxation and with a view, thus, to drawing off surplus money, increased wartime taxation has been resorted to from the very beginning. Surcharge on income-tax has been levied and progressively increased; the excise duty on sugar has been increased; and new excise duties have been levied on rubber tyres and tubes, Vanaspati and tobacco. Excess Profits Tax has also been levied. The percentage has been progressively raised till it is at present $66^2/_3$ per cent. plus a compulsory deposit of an amount equal to $^1/_5$ of the tax which is returnable to the assessee after the war.

Import duties have been generally raised by 20 per cent. which has the double object of getting increased revenue as well as discouraging the import of luxury goods. The aggregate of the principal sources of taxation (customs, Central excise duties, corporation tax, taxes on income other than corporation tax, E.P.T, salt and opium) amounted to Rs. 75 crores in the pre-war year 1938-39. The Budget estimates from the same sources for 1943-44 amount to Rs. 168 crores which represent an increase of Rs. 93 crores. The whole of this increased amount may not represent the proceeds of increased or new wartime taxation, since a portion should be attributed to the natural processes of expansion of revenue. This is particularly the case in respect of excise duties and income-tax, but the main part of the increase could no doubt be attributed to increases in wartime taxation In other words, the amount of increase, namely, Rs. 93 crores, roughly represents the amount of excess purchasing power mopped up through increased taxation

Increased Borrowings

The Hon'ble Sir Jeremy Raisman, Finance Member to the Government of India, stated in his last budget speech that borrowing was becoming more and more the sheet-anchor of India's war finance. Four successive Defence Loans have been issued and were on tap during different periods, the fourth being now current All the loans have been on a 3 per cent basis The total subscribed to the defence loans up to the end of July 1943, aggregated about Rs. 218 crores, including subscriptions to two special issues of 3 per cent. 1963-65 interest-free Bonds, and Defence Saving Certificates (gross). Rupee counterparts of the repatriated sterling loans have been sold to the tune of Rs 157 crores.

In other words, the public have so far lent to Government, through all sources, a total of nearly Rs 375 crores, which represents the surplus purchasing power in the hands of the people absorbed by Government by their different

borrowing programmes and made use of for financing the war. Besides this, the short-term loan of Government has also increased. Treasury bills outstanding with the public amounted to Rs. 34 crores on September 1, 1939, just on the eve of the war; they amounted to Rs 126 crores on July 31, 1943. The difference, *i.e.*, Rs. 92 crores, represents the money absorbed by Government through operations in the short-term market.

ANTI-INFLATIONARY MEASURES ADOPTED

A series of anti-inflationary measures were adopted from May 17, 1943, the object of which was further to mop up excess purchasing power. An Ordinance was issued introducing a system of summary assessment of excess profits tax, as a result of which it was expected that Rs. 100 crores would flow into Government coffers. This amount would otherwise be available in the market for speculative purposes.

The idea of the new Ordinance was that, as soon the accounts of a person were made up, the Income-tax authorities would assess the E.P.T. on a common-sense basis and, on the basis of the assessee's own published account, would endeavour to agree with him about the extent of excess profits leaving out controversy about disputed items. On the agreed amount being determined, a demand for E P.T. would issue at once and the amount would be collected. It was anticipated that this would lead to a very large sum being immediately withdrawn from circulation and brought into Government coffers. When the regular assessment came to be made in due course, if it was found that a refund was due to the assessee, he would not only get back the excess, but Government would also pay him 5 per cent. interest per annum on the amount paid by him in excess and subsequently refunded by Government.

The Ordinance also provided for compulsory deposit by E.P.T. assessees after paying the tax. The assessee was under an obligation to deposit with Government a further sum not exceeding one-fifth of the tax; Government would also put aside for his benefit a sum equal to one-fifth of the tax. The deposited portion as well as the Government quota would be paid to the assessee after the end of the war.

Under the new arrangement, a total of $93\frac{1}{3}$ per cent. of the excess profits of business undertakings would become immobilised E.P T takes away $66\frac{2}{3}$ per cent. Of the remaining $33\frac{1}{3}$, in the majority of cases, $13\frac{1}{3}$ goes away as income-tax and super-tax, so that the present rate of taxation of excess profits amounts very approximately to 80 per cent. Of the remaining 20 per cent., under the new scheme, $13\frac{1}{3}$ per cent. will be compulsorily deposited, leaving only $6\frac{2}{3}$ per cent. of excess profits to be used for distribution of dividends or current consumption.

CONTROL OF BONUSES AND STOCKS

The new measure also empowers Government to restrict the amount of bonuses and commission which shall be admissible for income-tax purposes and the amount of stocks which shall be considered reasonable in the same connection. At the present time, the distribution of bonuses takes place largely at the expense of the exchequer, which has very little to say as to their extent. Under the new scheme, Government will have a say in the matter; a possible big loophole in taxation has thus been covered.

Regarding stocks, it is possible for an assessee to hold very large stocks of raw materials or stores, and he actually derives some advantage in respect of tax by increasing his amount of capital so invested In normal times, there is no necessity to attempt to control that; but at the present time there is a danger that even manufacturing concerns may hold such a large stock as to amount to hoarding, which may cause shortages and force up the prices of these raw materials and stores The encouragement which the present taxation arrangements give to that process has now been withdrawn.

CONTROL OF CAPITAL ISSUES

On the same date a new Defence of India Rule was issued prohibiting, *inter alia*, without the prior consent of the Central Government, the issue of capital in British India, any public offer of securities for sale in British India, and the renewal or postponement of repayment of any security maturing for payment in British India. This new Rule, besides preventing the growth of mushroom companies which stand little chance of survival in the post-war period, will also have an anti-inflationary effect.

At the present time, there is a serious shortage of many of the most essential goods and services, including not only iron and steel and machines and mill stores, but also of skilled labour and transport facilities. By having a strict control over the issue of new capital, it is possible to prevent a scramble for the available supplies, which can only result in raising prices still further. Besides, new enterprises could be canalised into producing increasing quantities of goods essential for war purposes or for civilian consumption, instead of being employed for the production of luxury goods

Further, the battle against inflationary tendencies cannot be won unless there is large-scale subscription to the various loans issued by the Government of India Although part of the capital subscribed in respect of new banks, investment trusts and insurance companies will, no doubt, flow into these loans, Government have to consider whether there is not a danger that a good deal of it may be diverted to speculative uses, such as the financing or hoarding of scarce commodities and loans to the stock exchange, which are definitely anti-social at the present time

As a matter of fact, ever since the above anti-inflationary measures were promulgated, subscriptions to the Defence Loans have increased very appreciably While the average of these (including sales of rupee counterparts and repatriated sterling loans) previous to June 1943 amounted only to about Rs 93 crores per year, during the short period of six weeks ended July 17, 1943, nearly Rs. 50 crores were invested in Government loans (including sales of rupee counterparts)—"a most encouraging and heartening achievement" as H. E. the Viceroy has observed.

ANTI-SPECULATIVE MEASURES

The recent anti-speculative drive was inaugurated in March 1943, when the Finance Member, from the floor of the Central Legislative Assembly, issued a stern warning to raw cotton speculators in Bombay "I must say that I have rarely seen a more disgusting and depressing spectacle than that which has been provided by the Bombay cotton market in the last few days," he said. "Here is a commodity which is vital to the poor of the country, is vital to the war effort and as far as I can see, there was absolutely no reason whatever, except the purest gamble and speculation, for running the prices of this commodity up to the levels which it had reached I want to assure the Honourable Members that Government do not regard that sort of thing with complacency. I want to say to the speculators and profiteers in Bombay that, if they indulge in this type of action, they will find that Government will mobilise the whole of its resources in order to defeat and crush them"

Measures were soon adopted to control speculation in raw cotton The Cotton Forward Contracts and Options Prohibition Order was promulgated on May 1, 1943, which prohibited all persons from entering into (*a*) any forward contract for the sale or purchase of cotton in respect of new crops and (*b*) any option in cotton

BAN ON FORWARD CONTRACTS IN COTTON

Forward contracts in current crops were also prohibited from the close of business on May 20, 1943, the contracts remaining open at the time being permitted to be liquidated at rates fixed by Government Raw cotton prices were stabilised on the basis of Rs. 550 for the fine Jarilla (in terms of the Indian Cotton Contracts), which was considered a fair price by Government. Mills were advised not to pay more than the prices indicated in the Government Press Communique.

Speculative activities in the oil-seed market were next dealt with. An Order was promulgated prohibiting future's trading in groundnut, linseed, mustard seed and rape-seed as from the close of business on May 31, 1943. The prohibition was extended to castor seed, cotton seed and sesamum with effect from September 6, 1943.

Speculation in bullion was controlled as from May 29, 1943, under a new Defence of India Rule which prohibited forward contracts or option dealings in bullion.

With a view further to curb speculative activities in commodities, particularly bullion, the Government of India have taken powers under the Defence of India Rules to regulate advances against specified commodities. Foodgrains have been so specified since then.

As a result of the adoption of the above measures against speculative dealings *in commodities*, the prices of raw cotton, oil-seeds, gold and silver have considerably declined from the peak levels to which they had gone up in the early months of 1943.

The measures adopted by Government in their drive against inflation in the monetary field and in curbing speculation have been indicated above Efforts now being made to increase the production of commodities for civilian consumption are briefly dealt with below The two most important programmes adopted by Government in this connection relate to increasing the production of foodgrains and the manufacture of cloth These two commodities largely enter into the cost of living of the average man in India—the agriculturist in the field and the labourer in the workshop. The prices of these have increased very much as compared with the pre-war period; and it is hoped that, as a result of the measures now being adopted to increase production, they will sooner or later decline to more reasonable levels As a matter of fact, the prices of the chief varieties of cloth have lately declined by 30 to 40 per cent mainly as a consequence of the operation of the anti-hoarding provisions of the Textile Control Order.

Speaking on the "Grow More Food" campaign, H E. the Viceroy observed as follows. "The 'Grow More Food' campaign has led to an immense increase in the area under food crops and a vastly increased production of foodgrains. It is being urged on with the utmost vigour. Financial aid of well over a crore and a half of rupees has been made available from Central revenues and every possible help has been given to Provincial Governments and to the Indian States by way of technical advice No pains are being, or will be, spared to get the very maximum output that we possibly can."

FOOD DEPARTMENT

A separate Food Department has been in existence since December 1942, when it took over the administration of measures for controlling the prices, supply and distribution of foodstuffs. The principal aim of the Department has been to put a check to speculation and profiteering and the main weapon to combat these moves is the Foodgrains Control Order, the operation of which has been made effective by introducing various amendments from time to time Under this Order traders are required to take out licences for doing business in grain and to submit regular accounts to a local authority. Licences are issued only to genuine traders.

A recent amendment to the Defence of India Rules prohibits the advancing of money to any person on the security of foodgrains unless he holds a licence under the Foodgrains Control Order or the advance is made against a stock which has been produced by himself or his tenant.

A revised Basic Plan has been prepared and enforced by the Food Department to meet the requirements of the deficit areas from surplus Provinces and States. It has also been resolved to introduce rationing in the more important towns throughout the country. These steps are expected to help in stabilising prices, and ensuring a reasonable supply for everyone.

The Government of India recently appointed a Committee to suggest a long-term food policy Amongst its recommendations are a strict enforcement of the Foodgrains Control Order and rationing in important towns Both these recommendations will help to check inflationary trends in the country. The report of the Committee will be considered by an All-India Food Conference which will be held in the middle of October 1943.

Last year, there was a short fall in the quantity of cloth available for civilian consumption. The Secretary of the newly created Industries and Civil Supplies Department, which has been entrusted with the task of augmenting the supplies of manufactured articles for civilian consumption, stated in a recent speech in Bombay that only 1,800 million yards of mill cloth were available for civilian consumption during that period. Steps have now been taken to increase cloth production through rationalisation of production, adoption of multiple shifts and other methods Orders have been placed for the delivery of 1,000 million yards of 'Standard Cloth'—*i e.*, cloth intended for the poorer sections of the community—by the end of 1943

It is expected that the mills will be producing between 4,500 and 5,000 million yards per year after the measures now being adopted to stimulate production are *in full operation.* Added to these, we have the handloom industry

which is capable of giving the country a maximum output of another 1,500 to 1,750 million yards.

TEXTILE CONTROL BOARD

The Government of India have set up, with the co-operation of the mill industry, a Textile Control Board which, in close co-operation with and under the supervision of the Industries and Civil Supplies Department, will look after the stimulation of cloth production and its distribution to the best advantage of India's economy. A Textile Commissioner has also been appointed.

Under the Cloth Control scheme, which was promulgated in June 1943, provision has been made to ensure the proper movement of stocks from the mills to the consuming centres. This will prevent the hoarding of stocks by producers, dealers and consumers and make available for actual consumption every yard of cloth produced in the country

Existing stocks, which had been piled up by dealers previously in anticipation of higher prices, have begun to be disgorged, since the old stocks will have to be liquidated by October 31, 1943. Stocks are now freely coming into the market and the prices of cloth of all kinds have fallen not only in the wholesale but also in the retail markets. In some of the retail markets, as observed by His Excellency, the prices have fallen by more than 40 per cent. Sealing *ex*-mill and retail prices have been fixed for most of the standard varieties of cloth. A fair margin has been allotted to wholesale and retail dealers for the cost of transport and other incidental charges and for profits. The ultimate price to the consumer cannot be more than 20 per cent. above the *ex*-mill prices, which is the permitted margin.

Thus the problem of inflation is being actively tackled in India. The root cause being of a twofold character, namely, increased purchasing power in the hands of the people and limitation in the supply of commodities available for civilian consumption; the solution is naturally being attempted in a twofold direction. The excess purchasing power is being absorbed or immobilised by various methods. Vigorous efforts are being made to increase production Speculative tendencies have been curbed. Results have already been achieved in certain directions, and it is hoped that eventually it will become possible to check the inflationary tendency and keep the price level within reasonable bounds—limits justified by the natural and wartime economy of the country.

* * *

The Government of India has suddenly become "inflation conscious"—none too soon. By the end of 1942, wholesale prices in India were about 130 per cent. above pre-war compared with Britain's 60 per cent., the cost of living 100 per cent, compared with Britain's 30 per cent

The note circulation in India has risen 300 per cent. compared with Britain 72 per cent. Inflationary symptoms are plentiful especially the speculation in gold, silver and cotton. The United Provinces Government's prohibition of forward dealings in cotton goods and making such contracts unenforceable is rather like plugging the thermometer to stop fever, but must be viewed in conjunction with all other anti-inflationary measures, the success of which is illustrated by the slump of Bombay bullion This, however, does not mean that the inflationary boom has been broken

The *Economist* says that the fall of Bombay gold is sharper than silver because genuine up-country offtake of silver for hoarding persistently proceeds, regardless of the oscillations of the fever chart of the speculative sentiment Moreover, responsible Indian quarters feel more promise of the permanence of the present premium of rupee price silver over dollar and sterling parities, than there can be about the corresponding premium of gold —*Reuter*.

The *Economist* says that while the financial agreement between India and Britain continues to pour new currency into India, the Indian Government is attempting to order the tide back like Canute.

While the order restricting advances against commodities including bullion in which the recent speculative orgy has largely centred, will be useful in checking speculative activity and undoubtedly has unloosed considerable weak speculative selling, it will in no way prevent persistent hoarding on which the rise in gold and silver has been based Hoarding directly results from currency inflation, which continues unchecked Over the twelve months ended July 2, the Indian note circulation has risen from Rs. 447 to Rs. 734 crores based on

the increase in the Reserve Bank's sterling holdings from Rs. 347 to Rs. 650 crores. As long as this inflation continues, the effect of the Defence Rules can only be temporary and hence the recent reaction in bullion may prove short-lived. On the longer view, which embraces post-war removal of international restrictions on movements of silver and gold, the existing premiums of their prices in India seem more than precarious, but with the present economic forces in India these premia are likely to reach fresh records before the post-war adjustment of the situation becomes feasible.—*Reuter.*

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The comments of the London *Economist* on hoarding and inflation in India are characterised in authoritative quarters here as based on incomplete data and made without a knowledge of the most recent development.

Some of the points which it is urged should help to modify the conclusions set out by the *Economist* are as follows:—

The violent reaction produced by the mere threat to prohibit bank advances against commodities, including bullion, is itself evidence of the extent to which earlier high prices were attributable to speculative rather than monetary causes

The rate of currency expansion has notably declined, and in three out of the last five weeks, was nil.

The success of the recent loans has been unprecedented Loan receipts in the last seven weeks have reached a total of over Rs. 58 crores inclusive of Rs. 12½ crores in conversions.

The persistent outflow of small savings in recent years has now given place to a net intake of one crore a month.

The general price index curve has not merely flattened but has turned in the downward direction—a remarkable development in itself.

All this has been achieved before the provisional summary assessment in connection with E.P.T. has had time to produce receipts in sufficient volume to affect the situation.

These factors are considered specially encouraging, and official quarters express confidence that should any further speculative activity break out, they can deal with it suitably and effectively.—A.P I.

* * *

The *Economist* argues that India's inflationary problem has been aggravated by, firstly, the wartime financial agreement between the British and Indian Governments, which gave the Government of India too little inducement to cover India's total war contribution by taxation and genuine loans; secondly, by the means chosen to finance expenditure recoverable from the British Governments. Among British Empire countries, India claims the unenviable distinction of the greatest monetary inflation and the steepest rise in prices. The latter is partly due to the virtual impossibility of applying rationing, requisitioning and price control which have become commonplace elsewhere but the fundamental influence in the Indian price situation has been the degree to which the crudest inflationary finance has provided to the counterpart to India's real contribution to the war in terms of goods and services

From September 1939 to April 1943, India recovered about 438 million sterling from Britain and spent 320 million on her own defence. The inevitable payment in cash from Britain allowed India to repatriate her sterling debt and accumulate five hundred million sterling assets. Apart from occasional falls on debt redemptions the curve of the growth of sterling assets almost perfectly paralleled the rise in note circulation

The inflationary problem would here have been more nearly solved if the financial agreement betwen the British and Indian Governments had shifted a larger share of the rupee expenditure from the former to the latter. Even taking the agreement as the immutable manner chosen to meet recoverable expenditure, it does not appear the best calculated to mitigate the danger of inflation. Sterling payment is justifiable to the extent that the sterling debt could be repatriated, since the latter placed in the hands of Indian investors should have correspondingly absorbed the purchasing power created by British expenditure, but beyond that stage, one may well ask why the British Government did not meet its rupee expenditure by raising rupee loans from the public. The damage has been done, and attempting to undo it now would require deflationary measures which would multiply rather than remedy the difficulties

already created among which the present famine in Bengal occupies a tragic, urgent prominence. The measures devised to remedy the inflationary symptoms have necessarily been palliatives. They corrected some of the excessive rises in prices but at best their effect can only be shortlived and only likely to cause a temporary flattening To tackle the serious inflationary problem at the roots, the Government of India must be induced to absorb by further taxation a great part of the purchasing power, which is being steadily created by the defence expenditure incurred in India.

Arguing that India cannot bear a heavier financial burden, ignores the fact that India actually is bearing the whole real burden represented by the combined Indian and British Government defence expenditure since labour and materials and their cost in terms of abstinence from current consumption are being borne as expenditure is incurred. Book entries in London by which the Indian Reserve Bank receives sterling make no real difference. If India can bear that real burden, there should be no insuperable difficulty in rearranging its financial apportionment in a rather less inflationary pattern than has been adopted since the beginning of the war —*Reuter*.

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The following advertisement, which appeared recently in the American Press in connection with the efforts of the U S Government to fight inflation, will be read with interest at the present moment in this country:

We want to warn you before you read this page, that you have got to use your head to understand it.

We also want to warn you that if you don't bother to read it carefully enough to understand it—you may wake up after this war as poor as a church mouse.

This year Americans are going to make—minus taxes—125 billion dollars.

But this year, we civilians are not going to have 125 billion dollars' worth of goods to spend this on. We're only going to have 80 billion dollars' worth. The rest of our goods are being used to fight the war.

That leaves 45 billion dollars' worth of money burning in our tears.

Well, we can do two things with this 45 billion dollars. One will make us all poor after the war. The other way will make us decently prosperous.

This way the 45 billion dollars will make us poor.

If each of us should take his share of this 45 billion dollars (which averages approximately $330 per person) and hustle out to buy all he could with it—what would happen is what happens at an auction where every farmer there wants a horse that's up for sale.

If we tried to buy all we want we would bid the prices of things up and up and up. Instead of paying $10 for a dress we're going to pay $15 Instead of $5 for a pair of shoes we're going to pay $8.

This bidding for scarce goods is going to raise prices faster than wages. Wages just won't keep up

So what will people do?

U.S. workers will ask for more money. Since labour is scarce, a lot of them will get it. Then farmers and businessmen who feel the pinch are going to ask more money for their goods.

And prices will go still higher. And the majority of us will be in that same old spot again—only worse.

This is what is known as Inflation.

Our Government is doing a lot of things to keep prices down—rationing the scarcest goods, putting ceiling prices on things, stabilizing wages, increasing taxes. But the Government can't do the whole job. So let's see what we can do about it.

This way the 45 billion dollars will make us prosperous.

If, instead of running out with our extra dough, and trying to bid on everything in sight, we buy only what we absolutely need, we will come out all right.

If, for instance, we put this money into (1) Taxes, (2) War Bonds, (3) paying off old debts, (4) Life Insurance and (5) the Bank, we don't bid up the prices of goods at all And if besides doing this we (6) refuse to pay more than the ceiling prices, and (7) ask no more for what we have to sell—no more in wages, no more for goods—prices stay where they are now.

And we pile up a bank account. We have our family protected in case we die. We have War Bonds that'll make the down payment on a new house after the war, or help us retire some day And we don't have taxes after the war that practically strangle us.

May be, doing this sounds as if it isn't fun. But being shot up at the front isn't fun, either You have a duty to those soldiers as well as to yourself. You can't let the money that's burning a hole in your pocket start setting the country on fire.

NOTE II

The following details with regard to the general principles and working of the Lease-Lend Act, and India's position therein, should reveal how India could get lease-lend supplies only as decided on by Britain and not as she might like:—

The biographer of President Roosevelt writing a hundred years hence may well decide that his greatest gift to the world was the idea of Lend-Lease. Beginning as an ingenious method of enabling the United States, not then at war, to help the nations fighting for democracy to overcome currency difficulties, Lend-Lease rapidly grew into a working plan for winning the war and a basic philosophy for winning the peace. Lend-Lease may well prove to be the seed from which grows the greater co-operation of the nations in making a better world when military victory is won

During the first two years of Lend-Lease which ended in March 1943, £2,407,500,000 worth of goods and services flowed from the United States to the United Nations under the Lend-Lease legislation Although the exact total cannot be given, a very large amount of material and services was "lend-leased" to the United States by the United Nations. As an example of the perfection to which the very complicated Lend-Lease machinery has now been brought, the American Army in Great Britain is now supplied with British materials and services so extensive and varied that the actual sum the U.S. needs to maintain her forces in Britain is only £6,250 a month.

Lend-Lease covers every kind of material and service. Roughly speaking, of the £1,000 millions—less than half the total—worth of goods and services which the U.S. has lend-leased to Britain, 55 per cent. has been munitions, 27 per cent. industrial materials and 18 per cent food and agricultural products It will be seen, therefore, that although it is the food lend-leased to Britain that has had the limelight, this has been a small proportion of the total. It is, in fact, less than half the 12½ per cent. of total U.S. production of foodstuffs available for lend-lease. Most of the balance of the 12½ per cent. has gone to Russia.

But how important is the food can be judged from the fact that two-fifths of the cheese, all the dried eggs, nearly all the dried milk and two-thirds of the pilchards, salmon and sardines eaten in Britain have come from the U.S. under Lend-Lease. On the other hand, Britain has supplied the U.S. with ships, munitions, uniforms and a hundred other items for the use of her forces in Europe and Africa and the big U.S. forces in the Pacific war areas are fed entirely with food supplied under Lend-Lease by Australia and other Dominions.

On paper the machinery of Lend-Lease is complex, but no more complex, of course, than the operation of international commerce and exchanges in times of peace If you go into your grocer's you may see on the counter a ten-pound cheese from which he cuts your three-ounce ration. That cheese came, perhaps, from a dairy in a Middle West town of the United States, without a penny or a cent changing hands. This is roughly how it was done.

Far in advance, the Ministry of Food Experts discovered the amount of cheese necessary to give every person in Britain the ration of cheese decided upon for a given period, the decision being based to a great extent on the calculations of the U.S Ministry of Agriculture of the amount of cheese available for Lend-Lease after satisfying the minimum requirements of consumers in the U.S. and the fighting forces.

The next step is the receipt at the Office of Lend-Lease Administration in Washington of the British requirements sent through the British Food Mission in the U.S. Here it is given, together with similar calculations from

Russia and other countries eligible for Lend-Lease food, to the Combined Food Board There follows a period of adjustment. Almost inevitably the requirements of the nations combined exceeds the amount of cheese available. Efforts may be made to see whether other countries—say New Zealand—can help by supplying some of the cheese to soldiers and civilians stationed in a convenient spot. Finally, from the discussions, there emerges a firm allocation, and the Ministry of Food in London puts in a demand, quoting quality and date of delivery This goes to the U S. Food Distribution Administration.

All manufacturers in the U.S. work under contracts with the Food Distribution Administration and in due course they get orders for the specific amounts of cheese and very approximate dates when it will be required. Now the Combined Shipping Adjustment Board allocates ships to carry the cargoes of cheese and orders them to load at convenient ports, notifying the Food Distribution Administration. From its records this body discovers the whereabouts of the nearest stores of cheese and orders it to move to the port.

Finally, the cheese is handled over to the British authorities on the docks and from this time the shipping, storage and final distribution to grocers in Britain or quartermasters in camps is a purely British responsibility.

There are many Combined Boards which are the key to the smooth administration of Lend-Lease. Boards on which conflicting interests are reconciled and very roughly this is how Lend-Lease works both ways, whether it is cloth for American uniforms from British mills or aircraft for the Dominion Air Forces from American factories Labour, services and even whole ports and bases are "Lend-Leased" in much the same way. It is this machinery which keeps munitions moving by air into the heart of China and perhaps precious raw materials from the heart of Russia to America. Incidentally, Lend-Lease has sent to Russia the equipment for many armies—the chief items by January 1st this year included 3,200 tanks, 2,600 planes and 81,000 lorries and other vehicles.

It is only possible to quote Lend-Lease in terms of dollars or pounds, but the basic idea is that these figures do not represent money loaned or debts incurred. This was the brilliant novelty of President Roosevelt's invention. To treat the goods and services lent as money loans would be simply to pile up War Debts, the avoidance of which was the basic idea of Lend-Lease. This is a pooling of resources to fight the common enemy and no one nation is incurring money debts to the others. As far as the U.S. is concerned, the terms and conditions of the aid are specifically defined by Section 3 of the Lend-Lease Act in which they are defined as "those which the President deems satisfactory" President Roosevelt has given some indication of what he "deems satisfactory":—

"The real costs of the war cannot be measured, nor compared, nor paid for in money. They must and are being met in blood and toil. But the financial costs of the war can and should be met in a way which will serve the needs of lasting peace and mutual economic well-being ... If each country devotes roughly the same fraction of its financial production to the war, then the financial burden of war is distributed equally among the United Nations ... although the nations richest in resources are able to make larger contributions, the claims of war against each is relatively the same."

This is equality of sacrifice applied to international effort. The American people, with the greatest resources, are not confusing "give" with gift. They have realised that to help others is to help themselves and emphasised it by a House of Representatives vote of 407 to 6 renewing the Lend-Lease Act for another year.

The possibilities of Lend-Lease are still growing, Indeed, the peace-time possibilities have only begun to be explored. Lord Halifax defined it as a new rendering of "from each according to his ability and to each according to his needs". He pointed to the future when he said "Lend-Lease is a weapon of war; but the idea that it represents and has given to the world, as well as the spirit that inspired it, have an abiding value. We need them for victory in war; we shall need them no less for the constructive tasks of peace."

The economic significance of the Lease and Lend Act outweighs its political and moral implications, for it will strengthen Britain's balance of payment, relieve the British Budget and ease the pressure on the labour market.

It will facilitate the transition from war to post-war economy when the war is over.

America will supply arms, munitions, planes and ships to the value of 1,300 million dollars direct from actual stocks of the U.S A. Fighting Services President Roosevelt is able to demand from Congress additional credits. It is reported from Washington that the President will shortly ask for a credit of 7,000 million dollars for this purpose. No limits to these credits or shipments are announced. Britain, therefore, knows she will receive from the United States everything they can send in the way of material.

Vast Supplies

American aid will comprise not only war materials of all kinds but also raw materials and half-finished goods and, according to the latest amendment made by the Senate, agricultural products As America will also arrange to transport these vast supplies, it is likely that certain shipping measures will be taken, bringing further relief to Britain.

From now on, no more dollars will have to be paid for American imports The cash and carry clause has been finally shelved so that the strain on the foreign exchange market has relaxed.

The sum Britain has to pay to other non-sterling countries outside the U.S A. is comparatively insignificant As there will be a considerable saving in foreign exchange for Britain's balance of payments, she will be able to increase her purchase of raw materials from other countries overseas.

To be Repaid in Kind

American supplies to be repaid in kind after the war will mean a saving for the British Budget of at least £2,000,000 per day. Thus the present level of expenditure—some £11,000,000 to £12,000,000 daily—can be maintained without increase, while the British Budget can operate within that range.

The greatest relief which the Lease and Lend Act affords will be felt in the British labour market. When England receives annually from the United States war material valued at many hundreds of millions of pounds it will be possible to release hundreds of thousands of workers for the services.

Last week there was a contraction in non-essential industry By merging factories and pooling labour among a smaller number of larger factories, a great number of workers in non-essential industries will be released for war industries. It is evident that Government intend to concentrate non-essential industry as quickly as possible If, therefore, factories cannot be merged soon enough voluntarily, they may have to submit to arbitrary measures.

On March 9, 1943, Mr. Ernest Bevin announced that the Admiralty had taken over control of the ship-building industry At any time it can detail workers for transfer from one shipyard to another, so that certain jobs may be speeded up and the peak reached in ship-buildings. At the same time, an appeal was made for 100,000 women volunteers for work mainly in shell-filling factories

By now, one can almost speak of the liquidation of unemployment in England so far as able-bodied workers are concerned. Almost half the skilled workers in England who have not joined the Services to-day are employed in war industries. After the war, American shipments will be paid back in kind. Thus, the task of transferring millions of workers back to peace-time work will be facilitated.

After the war, some workers can be employed in repairing and replacing damaged American goods.

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The Government of India have decided to introduce a new procedure for the importation of agricultural, road-making and haulage machinery from the U S A. under the lease and lend procedure established under the American Lease and Lend Act The procedure, however, will apply only to machinery required by Government Departments or authorities from whom orders are at present accepted by the purchasing organisation of the Supply Department without obtaining a deposit. Private importation will continue as before, *i e.*, against dollar exchange on import licences granted by the Commerce Department or the Chief Controller of Imports

It is to be noted that the effect of the Lease and Lend Act is to make it possible for His Majesty's Government in the United Kingdom to obtain

from the American Administration without dollar payments supplies essential for the prosecution of the war and, where necessary, to pass such supplies on to the Dominions or India. It must be first established, however, that it is not possible to obtain these supplies within India or from the United Kingdom or an Empire source or in general the sterling area. An essential condition of receiving commodities under lease and lend is that their use and distribution must be under strict control.

The new procedure, which is already in force, is briefly this:

Every application for an indent is to be made on a prescribed form (obtainable either from the Director of Engineering, Directorate-General of Munitions Production, Calcutta, or from the Controllers of Supplies at Bombay, Madras, Lahore, Cawnpore or Karachi) and should be submitted to the Director of Engineering by a prescribed date. The application should furnish all the information required regarding the indent, and a separate indent should be prepared for each class of machinery.

If the Director of Engineering is satisfied that the import of the material from America, either in part or in full, is justified, an acceptance note will be sent to the indentor stating that the material, or part of it, will be included in the next quarterly indent.

The Director of Engineering will then prepare the bulked indents to be placed in America through the American Purchase Section of the Supply Department After the order has been sent to America, the indentors will be informed and furnished with an estimate giving the cost of the material, freight, insurance (war and marine), customs duty, if any, plus 1 per cent for departmental charges where necessary, plus clearing charges.

The indents will be placed in America once a quarter. The last dates by which applications for indents for the respective quarters must reach the Director of Engineering are: (a) for agricultural machinery—November 15, *February* 15, *May* 15 *and August* 15; *(b) for road-making and haulage machinery—December* 15, *March* 15, *June* 15 *and September* 15.

In addition to these quarterly indents, the American Purchase Officer may, at his discretion and for good reasons, place supplementary urgent indents on America. Such exceptions, however, will be made only in the case of demands by Government or specifically for Government purposes.

A further commodity whose importation from the U.S.A. is to be governed by the Lease and Lend procedure is oil In its lease and lend aspect oil (and connected products), however, offers some peculiar features. Oil for lease and lend purposes does not include petrol and kerosene, but includes lubricating oils and associated materials, such as tetra ethyl lead, tin plate, drum sheets, finished steel products generally, and drilling, refining and distribution equipment.

The Government of India have accordingly introduced a new procedure for the procurement of these products from the U.S.A. The procedure, which comes into effect forthwith, is briefly this.

Oil companies will send to the Petroleum Department in London, every six months, an estimate of their forward requirements, sending a copy at the same time to the Director-General of Supply, New Delhi. The estimate should show separately the requirements for Government and other consumers.

The Director-General of Supply will, after scrutinizing these estimates and investigating their correctness, bulk them into two components ("Government" and "Other") and forward them to the American Purchase Section of the Supply Department with his observations. The latter will then send to the Petroleum Department a summary of these estimates, forwarding a copy at the same time to the Indian Purchasing Mission in the U.S.A The Petroleum Department will consolidate indents from various countries and thus ensure the presentation of a single mass requisition in the U.S.A.

The Commerce Department will devise and apply an import licencing system for companies centralizing their indents in the above manner and for other persons who have been in the habit of importing small parcels of oil direct from the U S.A. In the latter case the quantities licensed will not exceed the dimensions of these persons' previous trade, and they will secure their supplies on payment in the ordinary way and will not, therefore, come under lease and lend

The issue of licences to the companies centralizing their indents will be conditional on their furnishing an undertaking that they will apply to the

Petroleum Department for approval of their dollar purchases and that the licences will be used only for purchases so approved. The companies will be charged by the Petroleum Department at current prices for the material released on lease and lend.

The Petroleum Department will keep accounts for each Empire country. In the case of India, the disposal of the proceeds will be the subject of general arrangements between His Majesty's Treasury and the Government of India.

In view of the extreme pressure upon American producing capacity and the necessity, therefore, of justifying every procurement from that country, it has been decided that all applications for telephones and connected equipment from the U.S.A. must now be made under lease and lend. The Government of India have accordingly introduced a new procedure which is to come into effect forthwith.

Every application for an indent is to be made on a prescribed form obtainable either from the Director of Engineering, Directorate-General of Munitions Production, Calcutta, or from the Controllers of Supplies at Bombay, Madras, Lahore, Cawnpore or Karachi The form and the procedure will vary according as the indent is submitted by a Government Department or an authority from which orders are at present accepted by the purchasing organisations of the Supply Department without first obtaining a deposit, or by private indentors from whom a deposit in advance is essential In the case of the former, applications for indents are to be made in the first instance to the Director of Engineering, and in the case of the latter to the Chief Controller of Imports, Commerce Department, New Delhi.

All indents will be bulked by the Director of Engineering who will then submit a comprehensive final indent to the American Purchase Section of the Supply Department. The latter will place the all-India indent on the Indian Purchasing Mission in the U.S A.

The all-India indents will be placed quarterly. The last dates by which applications from non-Government importers for indents for the respective quarters should reach the Chief Controller of Imports are: October 7, January 7, April 7 and July 7.

* * *

President Roosevelt in the 14th Report to Congress on lend-lease operations for the period ended 31st December 1943, says to-day (March 11, 1944)—the third anniversary of the passing of the Lend-Lease Act—that in contrast to the situation three years ago, forces of the United Nations are advancing on all war fronts of the world.

"Of our total war expenditure to the end of 1943", President Roosevelt says, "Eighty-six per cent. went for the armed forces and the home front and 14 per cent for lend-lease aid to the Allies. Total lend-lease aid from the beginning of the programme to 31st December last amounted to 19,986 million dollars and aid furnished in 1943 totalled 11,733 million. Planes, bombs, tanks, ships, guns and other munitions accounted for the greatest part. Lend-lease food shipments supplied a vital ten per cent of Britain's food supply and enables the Soviet Union to maintain Red Army rations."

President Roosevelt declares that the overall costs of war cannot be measured in dollars. The men who fell in Stalingrad and Salerno, in Tunisia and at Changsha, the immeasurable havoc and destruction—these are claims that can never be evaluated in monetary terms.

"The United States was now reaching a point where half of its gross national production is devoted to war purposes including transfers under lend-lease Lend-lease shipments to the Soviet Union in 1943 totalled 2,888 million dollars.

Exports to India

Lend-lease exports to India from 11th March 1941 to 31st December 1943 totalled 819,452 thousand dollars. Exports in 1943 were 70 per cent. greater than the combined shipments for 1942 and 1941. Our strategic policy towards India has been determined by the importance of India's strategic and geographical position in the Far Eastern part of the war. India is a major supply centre for the war against Japan. From India extends the air supply line into China. Furthermore, India is a military base for operations against the Japanese in Bruma. Lend-lease exports of guns, ammunitions and other munitions to India for the British and Indian armies and navies through

December 31st, 1943, amounted to 554 million dollars. With the help of munitions and other materials lend-leased by the United States, India has become a vast military base."

President Roosevelt then pays a tribute to Indian troops who "have seen service on widely scattered fronts in this war", and adds, "Many more are preparing for greater offensives to come against Japan."

"From the beginning of the lend-lease programme to December 31, 1943, we shipped to India 250 million dollars of agricultural products Of primary importance have been transportation, communications and construction equipment shipped to India. In order to enable Indian railways to carry heavy additional burdens imposed by the war, we have provided locomotives and freight cars. We have furnished forty thousand trucks to supplement the railway systems and canes, lighters and stevedoring equipment. In order to facilitate the building of air bases, barracks and military roads we have sent construction machinery, cement-making machinery and lumber. We have provided under lend-lease some of the machine tools and raw materials such as steel, copper, aluminium and zinc which have helped India to expand her munitions output Lend-lease exports of machine tools to India have amounted to ten million dollars and currently India is buying all of its machine tools in this country for cash."

"India's exports of raw materials have been increasingly important in the United Nations' war effort. India is now our sole source of jute used for making burlap bags. She is one of the principal suppliers of mica which is essential to the production of radio equipment for the armed forces. Other important materials imported from India are manganese, shellac, talc, beryl and kyanite. In order to increase the production of these items we have furnished under lend-lease a variety of industrial tools as well as mining and pumping machinery. The lend-lease aid we have sent to India has assisted and will assist the United Nations in gaining votaries over the Axis. But this aid has not flowed in one direction. India too has supplied what she can for the common war effort in many forms. Our forces in India have also received substantial reverse lend-lease from India as shown in another section of this report."

India-China Air Route

Regarding China, the report says the aid has included development of air route from India, training Chinese pilots in the United States and India, and supplying planes, training and equipping Chinese troops in India, and material stock piles in India ready to be moved as soon as the land route is re-established. "Great progress has been made during the past year in the development of the air transport route into China. The actual volume of air freight now being carried is a military secret and amounts have increased by leaps and bounds. In the last three months of 1943, more air cargo for the United States and Chinese forces was carried into China by air than in the preceding nine months."—*Reuter*.

CHAPTER XIX

POST-WAR PLANNING IN INDIA

"If the majority of countries deliberately embark upon a policy of complete autarky and are willing to accept the severe reduction in their living standards that would be involved, then international trade will be an impossibility .. . It the Indian peasant can earn a larger income by making loin-cloths than he previously earnt in agriculture, he can spend more, not less, on imports, if only the overseas producer will give him what he wants . . It cannot be true that a country with Britain's widespread commercial ramifications would be injured by anything that enriched the world."—The *Economist*, dated January 1, 1944, p. 4.

EVEN in India a great deal is being done by way of preliminary discussions and organisation in connection with post-war economic planning. The Government of India have appointed a Reconstruction Committee to deal with this problem under the following heads:—

1. Resettlement and re-employment
2. Disposals, Contracts and Government purchases.
3. Public Works and Communications.
4. Trade and Industry.
5. Agricultural Policy.

The preparatory work on each of these items is being attended to by a Reconstruction Policy Committee for each subject, presided over by the Member of the Government concerned with that subject. In addition to the Committees, there are also separate official committees presided over by the concerned Secretaries of Government; and their function is to prepare data and carry out a preliminary examination of the proposals, for submission to the Policy Committee or the Committee of Council as the case may be. They also ensure the pooling of ideas on Reconstruction problems, prepare detailed schemes and translate into executive action the decisions taken by the Reconstruction Committee of Council. There is also an Official Committee to consider matters relating to social services in India and a Consultative Committee of Economists to deal with the economic aspects of Reconstruction. Thus, the Government of India are going about the matter in a serious way and intend to anticipate events and plan their course in as scientific a manner as possible Of course, at this stage all that can be undertaken by them is a survey of the various problems which may arise in this country after the cessation of hostilities

The question of Post-War Reconstruction is of vital concern to the Indian States no less than to the rest of India, and in pursuance

of the recommendations of the Committee of Ministers of the Chamber of Princes, a special Post-War Reconstruction Committee has been set up to deal exclusively with the work of Post-War Reconstruction affecting the States in general. Sub-Committees to deal with the following subjects in relation to Post-War Reconstruction in the States are also being set up.—

1. Labour and Demobilization. (This committee will *inter alia* devote special attention to the question of utilising in the States the services of trained technicians on their return after the war.)
2. Disposals.
3. Public Works.
4. Trade, fiscal and currency
5. Agriculture, including forests.
6. Industries, including cottage, rural and engineering industries.
7. Social services.
8. A special committee which will assist in getting for the States necessary plant and machinery for the duration of the war and thereafter, through Lease-Lend arrangements or otherwise.

The special Post-War Problems will be treated under three distinct categories:—

1. Preparation during the duration of the war.
2. Post-war development to be undertaken immediately on the cessation of hostilities.
3. Long-range Planning.

The Proposed Panacea

Although the outlines of the policy have not yet been definitely fixed, authoritative statements (among which are the following few) point to predominant attention to industrialisation Sir M. Visvesvaraya very recently said:

> Nations are prosperous or the reverse according to the degree of attention they give to occupations connected with industries and commerce. In India, however, whenever attention is drawn to production, prominence is given to the products of agriculture, and industries are relegated to the background This is opposed to the policies and practices pursued in Western countries and in Japan, and is the chief cause of the low productive power and poverty of India.

The Hon'ble Sir A. Ramaswamy Mudaliar, Supply Member, Government of India, declared:

> Whatever may happen in the next few years, whatever the political condition we may or may not have, however much there may be

suspicion in this country, the force of time and trend of events are such that industrial development in this country is an assured fact. Let there be no doubt about it. There will be more industrial development in the next four or five years than has been in the last thirty years.

The Hon'ble Sir Aziz-ul-Haque, Commerce Member, Government of India, said:

In the exigencies of war conditions industries are necessarily organised, mobilised, and shaped to meet the exigencies of war production, but it is time for us to try to plan the future, assess the place of the war industries in the post-war conditions, and give our thoughts to other human and social aspects of life, and conditions of industrial labour, so that men may not decay with a mere accumulation of wealth.

The Hon'ble Raja Dharam Karan Bahadur, Public Works Member, H.E.H. the Nizam's Government, observed:

One result of the War of 1914-18 was that it evoked in the minds of Indian engineers the possibility of manufacturing in India the machinery and merchandise that was purchased from abroad As a result, from 1920 to 1940, several heavy and light industries were brought into being with increasing expedition. However, since the advent of the present war, with its unbounded possibilities and the entire changeover from man-power to mechanisation, it is realised that India must be made self-supporting. Improvement in the technique of production, *viz.*, employment of mechanical methods, and the use of chemical fertilisers is necessary to bring about increase in the yield of particular crops and the raising of better and more remunerative crops. Our agriculture must, therefore, be strengthened by the supply of cheap machinery for which a machine tool industry is a *sine qua non.* This can be done with a large-scale manufacture of iron and steel. Nevertheless, it seems strange that we should still be engrossed with the problems of our coal, cotton, iron, steel and other basic industries, while the progressive countries of the world have been trying to redress the balance of the old by developing the modern industries of electricity supply, the manufacture of radio and electrical equipment, aluminium, rayon, synthetic dye-stuffs, oil-extraction from coal, and air and motor transport. The chemical and engineering industries are universally recognised to be the starting point in modern industrial development, but in India we have still to make a beginning in these directions.

Items like rural research and statistics, rainfall and livestock insurance and land mortgage banking do not find their proper place in this scheme. Industrial research is being given much prominence, and the essential features of a planned economy, namely, the objective aimed at in ten years with regard to the national income, level of consumption, saving, investment—its "pace" and its "avenue", are lacking. The probable result will be that each of these committees

will sing its own song without reference to other commitments and demands, and there may even be a good deal of contrary literature as amongst the reports and recommendations of these numerous bodies. As the scheme stands, industry or industrialisation is being given great deal of attention while agriculture receives a Cinderella treatment.

NEGLECT OF AGRICULTURE

Dr. Aykroyd, the nutrition expert, wrote thus:

The majority of the population (Indian) lives on a diet far removed from the most moderate standards of adequate nutrition ... To the nutrition worker, the food situation in India is thoroughly unsatisfactory in normal times. A nationwide "grow more food" campaign would have been appropriate in 1938 before the war started, and will be appropriate in 1945 when, let us hope, the war will be over.

The extracts from the Hon'ble Sir Jogendra Singh, Member of the Government of India for Education, Health and Lands, and from Dr. D V. Bal's recent address to the Indian Science Congress, reveal the very unsatisfactory position in this respect:

The total acreage under rice in India had been increased from 73 million to 75 6 million acres. Under millets, the acreage had gone up from 51 million to 56 million acres. Five Provinces, Bombay, C.P, the Punjab, Bihar, and the U P, had between them already reported an actual increase of 4.1 million acres and it was probable that when the figures from the other provinces were received, the total increase would not be short of the target of 7.6 million acres aimed at. Sir Jogendra Singh made it clear that this increase had been secured by substituting food crops for money crops. An absolute increase of acreage was practically impossible, because all land with reasonable irrigation facilities was already under cultivation in India. In pursuance of the campaign to induce a change-over from money to food crops, Government had spent Rs 35 lakhs in subsidies to cultivators, mainly of cotton. In 1941, jute acreage was reduced from 4 million to 1.3; that is to say, two-thirds of the land under jute went over to rice. In 1942, the acreage under jute increased to two and a half million as a result of the Bengal Government's decision. In 1943, the probability was that it would revert to the 1941 figure. As regards cotton, the third forecast for last year was 22 2 million acres compared to 18.2 million this year, a reduction of four million. Sir Jogendra Singh said in reply to questions that it would not be possible to increase acreage under rice to an extent sufficient to wipe out the deficit arising from the loss of supply from Burma and Siam; but the deficit in rice could be filled by other crops. If manuring could be arranged on an adequate scale a 25 per cent. increase in the yield of food crops was possible, but the manure produced indigenously was by no means sufficient and imports in appreciable quantities were not possible under present conditions.

In his presidential address to the Section of Agricultural Sciences recently, Rao Bahadur Dr D. V. Bal dealt with some aspects of the present and post-war food production in India.

Dr. Bal said that various problems connected with the present and future food production in India had been broadly surveyed. It had been shown that on the basis of 1939-40 figures regarding the area under cereal crops in British India, the quantity of cereal food grains available for human consumption came to 53.2 million tons Average requirements in respect of cereal food grains per head per day came to about 1½ lb. on the assumption that out of the minimum requirement of 2,600 calories about 275 calories were derived from oils, pulses and vegetables, and 1¾ lb. of the total calorific requirements as shown by different diet surveys were to be derived chiefly from cereals only. According to the recent census figures the total quantity of cereal food-grains required, would thus come to 57.8 to 67 5 million tons which was higher by 4 6 or 14 3 million tons respectively than what the land could normally be expected to produce under existing systems of crop production; in other words, the present production would have to be raised by 8.6 to 26.8 per cent. in order to meet the minimum food requirements of the existing population. It was thus evident that leaving aside questions like birth-control and other measures for checking the growth of population, our immediate need was to increase food production to the maximum extent possible, apart from the economic factors governing crop production.

Dr. Bal made the following suggestions for increasing food production. Comprehensive schemes should be drawn up for the purpose of construction of wells in areas possessing shallow water table as well as construction of bunds and drains and the State should make sufficient funds available at low rates of interest, together with a provision for adequate subsidies and easy instalments for the repayment of loans. Preparation of composts from farm wastes by the cultivators and preparation of composts from town refuse and night-soil in urban areas should be encouraged and the latter should in the first instance, be issued free to the cultivators, and in addition small cash payments might also be made to partially cover the expenditure incurred in carting the manure from urban areas to the fields. Extensive cultivation of leguminous crops was also of urgent and vital importance both from the point of recuperation of soil fertility and improvement of the existing ill-balanced diet of the people. Efforts should be made to increase seed multiplication centres in order to meet the demands of the cultivators for improved seeds of various crops Suitable agencies on a regional basis should be established to deal with the diseases of crops and adequate storage facilities should be provided for, to protect the produce from the attack of insects, rats, etc. Since the existing supplies of fodder and the area under pastures were inadequate the practice of breaking up fallow land should be adopted with very great caution as it was likely to increase the competition between the cultivators and their cattle. Fortunately for us, if better methods of cultivation and manuring were adopted, it was possible to increase the food production by 25 to 33 per cent,

so as to adequately meet the food requirements of the population of the country. In view of the fact that it was obligatory on the part of the State to ensure minimum requirements in respect of food and clothing to every individual citizen, there was no reason why a portion of the increasing industrial and commercial income should not be utilised in giving relief in the form of subsidies to the cultivators should the business of crop production *vis-a-vis* industrial manufacture of finished articles become uneconomic or unremunerative.

Referring to the question of long-range problems relating to food production, Dr. Bal stressed the necessity for conducting properly planned experiments to determine maximum crop production capacity of soils, for training a large number of young persons, for stabilising incomes of agricultural labourers and cultivators and for prevention of fragmentation of holdings He also suggested colonisation of new areas and utilisation of demobilised soldiers and various vehicles and tanks at present employed for war work.

In conclusion, Dr. Bal urged that *all the resources at our disposal must be harnessed together in order to increase the production of food in India, not only to meet her present requirements but to banish the problem of food deficiency for all time to come.* (Italics are by the authors.)

Extensively, in the inter-war period, agriculture was practically stationary—in area sown, in food crop area, in area growing fodder and in area sown more than once in the year. These are the figures:

(in millions of acres)

Year	Area sown	Area sown with food crops	Fodder crop area	Area sown more than once
1921–25 (average)	205·8	195·1	8·4	31·1
1926–30 („)	208·9	193·1	8·9	31·2
1931–35 („)	211·0	198·9	9·7	32 2
1935–36 ..	209·7	196·7	10·5	32·1
1936–37 ..	21·7	200·7	10·6	34·5
1937–38 ..	213·5	197·4	10·4	33·4

In 1940-41, "other uncultivated area excluding current fallows"* was, according to official statistics, 97.86 million acres, but a new column was added with a footnote to the effect that out of this, 9.25 million arces were "definitely known to be cultivable". Here

* The heading "culturable waste other than fallow" was used in official statistics till a few years ago. The change to the new headings appears to have been made in view of the "grow more food" campaign and the apparent anomaly of having such a large culturable acreage and yet suffering from inadequate production of food-stuffs.

is a wide difference between the Settlement and the Agricultural expert opinion.*

Very recently, the Hon'ble Member of the Government of India for Education, Health and Lands, Sir Jogendra Singh, put forward these questions.

1 Why is our agricultural production so low?
2. Why is the milk yield of our cows and buffaloes even worse?
3. Why are our draught animals so weak?
4 Why is the mortality of our livestock so high?
5. Why does our programme of work lack in energy to accomplish in five years what, if at the present rate, may take a hundred years?
6. Why does poverty haunt the countryside?

These are questions that have been pending for a century and more, and the authorities should have had definite answers for these at least several decades ago; but the Hon'ble Member simply concluded. "I leave it to you to answer these questions" (addressing a conference).

POSTPONEMENT OF LAND MORTGAGE BANKING

The Royal Commission on Indian Agriculture, presided over by Lord Linlithgow (till recently the Viceroy of India) said in 1926:

The worst policy towards agricultural debt is to ignore it and do nothing

It is now over fifteen years that report was written, and even by now, practically nothing has been done for rationalising the debt burden on agricultural land. The leading Province of Madras has advanced slightly over three crores through land mortgage banks, the estimate of agricultural debts for that Province being Rs. 200 crores.

* *Indian Information*, December 1943, has published the following interesting summary of a paper by a forest expert:

How the weapons of war may serve the needs of peace was described by Dr Meclagan Gorrie of the Indian Forest Service in a paper which he read before the Crops and Soils Wing of the Imperial Council of Agricultural Research at Baroda in November.

Dr. Gorrie, who is at present Director of Woodware in the Supply Department, was speaking on the scope of absorbing demobilised soldiers on the land.

He estimated that with large-scale planning and in concert with Central and Provincial Governments, the Army, the returned soldier, and soil conservation specialists in the Provinces, some 170 million acres of "barani" land (land dependent on rains alone and not on irrigation) and waste could be brought into full cultivation.

He recalled what in the Tennessee Valley (U.S.A.) a Central Authority with autocratic control, "literally worked miracles in improving the status of what was in 1934 a bankrupt and down-at-heel agricultural community. When it was started in 1934, the American soil conservation programme gained much ground with doubting farmers when they were offered a free labour force to work for them whenever they agreed to have their farm run on a five-year plan"

The days of miracles, Dr Gorrie said, were not past, and *"India can make every one of its villages fit for heroes to live in if it follows the Tennessee Valley Authority's example"*. (Italics are by the authors.)

The advances in Madras have been successful: default has been very slight, and yet the movement has hardly begun in other parts of India. While during the depression it was argued that the long-term debt of the Indian peasant could not be spread out into reasonably long periods through land mortgage banks because the assets were almost valueless, now that agricultural prices and land values have gone up, the plea for more land mortgage banks is being brushed aside on the ground that with present high prices, the peasant should not require any special aid at all How far the average peasant has benefited from the high prices in spite of the middlemen, how far increase in costs has neutralised any *net* increase in his receipts, is a matter for conjecture (no scientific surveys have been conducted on such questions) ; and that adequate financing of land mortgage banks with government guarantee of principal and interest on debentures, should prove beneficial in having anti-inflationary effects, is not being duly recognised.

Economics of Small Holdings

The importance of agriculture and the small-scale peasant cannot be belittled In the words of the British Agricultural Tribunal:

> . . One of the things which makes for the general stability of the economic life of the country is a prosperous agriculture; and *vice versa*, a declining agriculture means the decline of many subsidiary urban occupations
>
> ... When a nation becomes predominantly industrial, and its agriculture is very much restricted, the national life suffers. Every nation should, therefore, strive to maintain a substantial portion of its population employed on the land. The ratio between those occupied on the land and those in manufacturing industry is a matter of far-reaching importance, and deserving attention. The "Family", "the Homestead", and the "Small Holding" in the New World and in the Old express an idea which is not simply economic, but social. ... The preponderance of the small farm is increasing and the movement in its favour is strengthened by the evidence that the "family farm" is weathering the difficult economic conditions of the times. Thus in agriculture the tendency has been in the reverse direction from that in other industries, in which great aggregations of capital and labour and the submergence of the domestic industry and of the small independent workshop or factory have been so general.

According to the 1931 census (the 1941 census figures have not yet been made public for reasons of war), landless tenants and labourers working on agricultural land in India are more than double the rentiers and proprietory cultivators,* and any move for large farms as a type should render more agricultural workers landless The

* Details are—Non-cultivating rent receivers 4.15 million; cultivating land-holders 28 4 million; tenant cultivators 36.2 million; landless agricultural labourers 33,5 million.

present territorial and occupational distribution of the Indian population is a healthy one, and any suggestion for economic improvement should stand or fall according as it does or does not respect the present territorial and occupational distribution generally speaking. The Barlow Committee in Britain on Industrial Dispersion was the aftermath of high localisation of industry which produced social problems which even the labour legislation in Britain could not successfully solve

Fragmentation and subdivision of holdings is being made too much of—on theoretical grounds. As a matter of fact, by means like (1) joint cultivation and division of yield (collective farming) among brothers and close relatives, (2) cultivation by the respective partitioners by rotation in different years, and/or (3) supplementing one's own occupancy area by taking a neighbour's holding (in part or whole) on lease, the cultivation holding (distinguished from an occupancy holding) *de facto* is bigger than ordinarily supposed (there are no reliable data in this respect)—although it could not be said that there was no room at all for reducing the number of cultivation holdings and increasing the number of economic farms. Thus, "Mechanisation" of agriculture in India should have a special connotation—not of expelling the small farmer and converting the country into a few mammoth estates, but retaining the small peasant on the land and giving him all possible advantages of machinery and power—through improved implements and cheap hydro-electric power. Is there pressure of population on agricultural land in India? Here again, we have no statistics, but actual conditions in advanced agricultural areas in India show that uniformly there is a scarcity of labour. If from the view-point of the product, the population is heavy, the right thing to do is to increase the product—for which there is ample scope. Fifteen years ago they started the Imperial Council of Agricultural Research, when what was also wanted was an Imperial Council of Agricultural Economics. Research by itself is a very good thing, but is a luxury activity; research implies leisure and knowledge and freedom from the pangs of poverty, whereas agricultural economics should have enabled the country to attain higher standards of production through commonsense—by means of manures, embankments, irrigation, enclosure, rotation, etc.

THE ZERO PROGRAMME

This would be a provisional estimate of the *initial capital requirements* of a "zero" programme for India, that is, a programme for raising the Indian standard of life to that point which could be considered as a fair minimum for the nation, bearing in mind the traditions and the circumstances of the country;

	Crores of Rs.
Agriculture.—Rationalisation of prior debt on land, and modernising agriculture (keeping the small holding intact) including items like irrigation and hydro-electric works, initial manuring, embankments, enclosure, etc. ..	1,000
Clothing and other consumption goods industries.—Mostly through small-scale and cottage methods	400
Housing.—There are about eight crores of families. Assuming that half the number are already provided, at Rs. 100 *per capita* outlay	2,000
Education[*].—Universal elementary education, adult, vocational, technical, etc., at Rs. 50 per pupil for about 160 million pupils	800
Health and Sanitation.—At Rs. 20 per head	800
Means of communication, transport, defence, initial quota, etc. (including the miscellaneous items)	1,000
Total additional capital outlay required initially ..	6,000

Spread over ten years, this would entail an investment of Rs. 600 crores per annum, or about ten per cent. of the national income which could be put at Rs. 6,000 crores per annum. It is true that for 1931-32 the income for British India was estimated to be less than Rs. 2,000 crores, but that was a specially depressed year. Also, in that estimate, many items were dropped for want of data. And nowadays, we have high prices. So far as India is concerned, we cannot proceed with a base year; for, we have no reliable estimate for any year. Taking into account the high prices, the war boom in production, etc., the conjecture is made that for 1943, the Indian (including the States) national income may be put at Rs. 6,000 crores at 1939-1943 purchasing power of the rupee In these calculations, the

[*] A few details of the Sargent Scheme for National Education in British India are given in the extract made below. The Bhore Committee on National Health has not yet completed its Report

A scheme for a national system of education to provide all children in India with basic education and enable promising children to pass on to high schools, universities, technical, commercial and art institutions, is outlined in a memorandum prepared by Mr. Sargent, Educational Adviser to the Government of India, as part of the Government of India's Post-War Reconstruction plans, and discussed by the Central Advisory Board of Education at a special meeting at Dehra Dun on October 13, 14 and 15.

According to Mr. Sargent, the scheme aims at no more than has been achieved already in Britain and other countries of the West and is the minimum for which India ought to plan in the post-war period of reconstruction.

For British India alone, the scheme is estimated by Mr. Sargent to cost, by the time it is fully established—that is, at the end of between forty and fifty years—Rs. 313 crores annually, of which Rs 277 crores will probably have to come out of public funds These figures compare with a total expenditure on education of about Rs. 30 crores in 1940-41, of which Rs. 17½ crores came from public funds. A system of universal elementary education for British India is estimated to cost Rs. 200 crores a year, and would call for 1.8 million teachers to instruct 52 million pupils.

increase in national income on account of a growing level of employment is omitted to be on the safe side, against the additional expenditure involved in the maintenance of increased capital equipment. Thus a programme somewhat of these dimensions should be quite practicable. Industrialisation even at £200 per worker would entail a capital programme of Rs. 40,000 crores, or Rs. 4,000 crores per annum for ten years working at 66 per cent. of the national income. Taking the earners at 160 million and assuming that ten million should be employed in idle capacity, 150 million workers should require Rs. 40,000 crores of additional capital outlay. Even if we assume that 50 million should be left out of account as occupied in non-industrialised agricultural pursuits, an industrialisation programme should require at least Rs. 20,000 crores, or Rs 2,000 crores per annum for ten years, or about 35 per cent. of the national income to be invested With the present abominably low level of consumption in the country, it is hopeless to expect this country to be capable of investing 35 per cent. even out of a gradually increasing national income.

The scheme just released by Sir M. Visvesvaraya for "Rural Industrialisation" is helpful:

> A three-point programme of rural industrialisation which would double the production of commodities in the country in less than seven years, has been chalked out by Sir M Visvesvaraya. The industries enumerated in the scheme include manufacture of agricultural implements, fruit-growing, poultry, dairy farming, biscuits, canned food, weaving, leather goods manufacture, jewellery, pottery, various occupations connected with house-building, carpentry, cutlivation of vegetables, animal husbandry, etc. Under the scheme, contiguous villages and hamlets are grouped into small units which ultimately go to form a unit area known as District.

The Bombay Memorandum

An Associated Press message dated Bombay, the 17th January 1944, reads:

> A plan of economic development which would revolutionise living conditions in India within fifteen years has been prepared by a group of influential Indian industrialists. A memorandum outlining the plan has been publishel to-day over the signatures of Sir Purshottamdas Thakurdas, Mr J. R D. Tata, Mr. G. D. Birla, Sir Ardeshir Dalal, Sir Shri Ram, Mr. Kasturibhai Lalbhai, Mr. A. D. Shroff and Dr. John Mathai.
>
> The memorandum envisages three five-year plans as a result of which the total national income of India would be trebled. Allowing for the growth of population meanwhile, this would mean a doubling of the *per capita* income. A feature of the plan is that the whole problem is viewed from the angle of national needs in the sphere of (*a*) food, (*b*) clothing, (*c*) housing, (*d*) education and (*e*) medical relief.

The plan would result in the present predominantly agricultural economy of India being transformed into a more balanced economy, 40 per cent of the national dividend accruing from agriculture, 35 per cent. from industry and 20 per cent. from services The plan envisages far-reaching agrarian reforms which will place agriculture on a basis of self-sufficiency and a tremendous growth of small-scale industries alongside the development of heavy industry

The total cost of the plan is estimated to be Rs. 10,000 crores over a period of fifteen years.

The authors point out that the execution of such a plan calls for the fullest measure of co-operation between the State and the masses of people of India and that such co-operation can only be forthcoming if a democratic national government is established in this country.

This is the first of its kind to be issued by leading industrialists, evidently taking the assistance of Dr. John Mathai in the economic hammering of it. The model set by the U.S.S.R. is visible almost in every page of the Memorandum—created money, five-year plans, accelerating speed in successive plans, finance being an obedient camp-follower of production (M. Dobb), etc One good feature is that the needs of consumption are not ignored: Some Indian economists have gone so far as to suggest that with industrialisation proceeding, consumption should be made to give room for further capitalisation. The scheme is quite practical although in the very nature of it, it is sketchy and preliminary in spirit.

A few points might be stressed, if only to make planning in this country still more realistic. The need for economic data is fundamental and deserves early attention. For instance, the Memorandum speaks of the national income and similar items in a very vague way. Secondly, the needs of agriculture have not been properly assessed financially, nor has the bearing of agriculture on social welfare been duly recognised. The Russian system of collective farms adapted to suit Indain conditions, with arrangements for *really* utilising the God-given fertility, would require a much larger outlay and a much higher level of organisation than contemplated in the Memorandum. While the total bill might be all right, their attempt to squeeze in "Industrialisation" reminds one of "passing the camel through the needle's eye". And then, this industrialisation-phobia ignores the great ills that have been brought to this world by that madness. The two great world wars have been its direct offspring. And for us in this country to-day to speak of "Greater India" and "the leadership of Asia" is nothing short of nightmare. Industrialisation must imply a high level external balance, and this always involves serious complications from out of which even a Power like Great Britain has not been able to free herself quite A high level national income, a high level social welfare and a high level external balance are not by any means the

same thing although there might be a great deal in common. On the other hand, really improving social welfare has always co-existed with lowering external balance. In the U.S.S R., imports and exports in 1928, 1935 and 1938 were respectively 831, 210 and 268 million dollars worth, and 699, 326 and 257 million dollars worth respectively, and this was the period when internal economic development went on steeply.

While the expansion in consumption goods industries is quite necessary, the building up of heavy industries is heavily beset with political, military, economic and social difficulties and dangers, and due notice of these should be taken Briefly, India would probably have to take to industries complementary to the needs of other countries with which she has economic contact, and these industries should be, from India's own viewpoint, purely supplementary. For the moment, the needs of food, clothing, housing, education and health are supreme, and one wonders whether this country will be really able to cater to these needs satisfactorily in the next two to three decades—even if all the available resources are made over entirely for these purposes. When one remembers the present dimensions of Government policy and Government finance, one cannot help feeling that anything like planning should be impossible in this country without the preliminary platform of military security, political insight and economic justice. Collaboration—regional if not global, and not isolation should be the right mould to cast our models on. Internally, the principle of marginalism should be duly respected and agriculture should be predominantly attended to: it is "token" grants for agricultural production and social services that has brought India to the present anomalous condition of a rich country maintaining a poor population.

Optimum Capital Intensity

The optimum roundaboutness of the structure of production would be to fix capital intensity at that level at which there would be neither a shortage nor a surplus of labour. Here in India, in spite of a quarter of a century of "discriminating protection" and the rise of several heavy and light industries, organised industries are nowadays employing about two million labourers only, and with large numbers available and a very low level of technical education, it would stand to reason that any process of industrialisation should be very gradual. The table given below illustrates how for a given unit of production, cottage industry would require a larger number of labourers than a large-scale industry producing the same goods. If the argument is that there is a plethora of population in this country, the right prescription should be not maximum capital intensity, but maxi-

mum employment of labour force for a given output—which should mean a low level of capital intensity.

Method of Production[a]	Capital intensity (or capital investment per head of worker) Rs.	Output (net value added) per head Rs.	Ratio	Amount of labour employed per unit of capital
Modern mill (large-scale industry) ..	1,200	650	1·9	1
Power-loom (small-scale industry) ..	300	200	1·5	3
Automatic loom (cottage industry) ..	90	80	1·1	15
Handloom (cottage industry) ..	35	45	0·8	25

The Private Profit Motive

Why then is industrialisation being so vigorously pleaded for? Capitalist interests fondly expect high profits as of old, but they are bound to be disappointed: the new spirit among the leading industrial countries is "small profits: quick returns". The following extract from the *Indian Finance* reveals the unjust profits to which Indian large-scale industries were accustomed—even in peace years.†

The A.I.M.O. in arranging figures relating to large-scale establishment has a paid-up capital of Rs. 30 lakhs and over. The figures available relate to 1940 when earnings were somewhat lower than at present but the return on the gross paid-up capital of Rs. 88.3 crores for 89 factories in 12 industries was 17.19 per cent. The rate certainly suggests that the levy of a tax on excess profits proceeded from the expansion of earnings. The table prepared in this connection by the manufacturers' organisation discloses that 30 cotton and 26 jute mills are classed as large factories giving employment to 104,225 and 141,750 workers respectively. It looks as if the average jute mill employs more operatives than the average cotton mill, but capital bears no relation to employment since Rs. 22.2 crores invested in electricity make for the employment of 33,636 persons only whose wage bill is put at Rs. 88,96,000. If wages are less the rate of profit is 9.66 per cent as against 19.59 per cent. in the jute industry. The table suggests that few sugar mills can be classed as large-scale factories, but five paper mills employing 5,951 workers are ranked with large-scale factories. The paid-up capital of the five paper mills at Rs. 300.14 lakhs exceeds the paid-up capital in several other industries. It is significant that profits appear highest in building construction.

[a] *The Eastern Economist*, Vol 1, p. 340

† Ordinary dividends declared for the period 1918-37 in India: jute 44.7, cement 23 3, paper 20.6 and cotton 20.6.—*I.J.E.*, Vol. XXIV, p. 392.

The single large concern listed earned 26.8 per cent. in 1940 on the paid-up capital though the average annual wage was Rs 1,890 as against the general average of Rs. 551 1 for all large-scale industries. Earnings in the iron and steel industry tend to be higher than in other industries, but the percentage of profits in proportion to paid-up capital appears to be higher in the case of chemical and oil companies The A.I.M.O. statement puts it as 47 05 per cent. though the value of production in relation to capital is smaller than in many other industries The lowest rate of profit is that shown for the match industry. Paid-up capital in 1940 is put at Rs. 70 lakhs, the number of workers at 700 with a payroll of Rs. 2 lakhs and a profit of Rs. 2 5 lakhs only is shown. The statistical table, of course, may give no indication of relative efficiency or help valid comparisons between wage-earners' position in various industries In the case of iron and steel the rate of profits on capital in 1940 is put at 27.24 per cent. and the total shown as profit, namely, Rs 4.5 crores exceeds that shown for any other large-scale industry; but a better yield on invested capital is shown in respect of the rubber industry where the percentage of profit on paid-up capital was as high as 32.32 per cent. Since debentures and bank loans are excluded, the percentage of profit earned by Indian industry in 1940 appears higher than presumed, and in the case of cotton mills the return on paid-up capital at 15.71 per cent. is moderate suggesting that the wartime recovery had just begun in 1940 and the wage-level too was more stable than after the great strike of 1940.

EXTRA-TERRITORIAL DEPENDENCE

Capital means capital goods, and these move, if at all, with the necessary technicians A new interpretation would have to be given to the term "economic independence" for allowing this infiltration of external finance and enterprise—even taking for granted (it could not be granted at all in view of external circumstances) that capital goods and enterprise and technicians could be commandeered from outside like the sun and moon according to the calendar.* On the other hand a capitalisation plan for a "zero" programme (explained *supra*) should entail about Rs. 6,000 crores in all, about a year's national income, to be spread over ten years. Even Rs. 600 crores a year, although quite practicable mathematically, should prove impossible unless traditional concepts of currency, credit and public finance both of Government and of the Reserve Bank are given up once for all. The Rs. 6,000 crores programme towards attaining the "zero" point has the special facility of minimum dependence on external capital goods, machinists and assemblymen: we have and could further increase Indian mechanics, teachers, nurses and overseers, at an accelerating rate in ten years.

* A V. Hill, Secretary of the Royal Society, said in a recent address in Hyderabad:
Considerable difficulty had been experienced in England in obtaining adequate machinery and plant.

PRIMARY OBJECTIVE

"Full employment" and "external balance" are relative terms. That employment is full which is suitable from the view-point of the level of consumption prescribed for the nation: as that level rises, the level of employment must also rise. And with horizontal and vertical scope for utilisation of resources, it could be said of no country at any stage. "thus far and no further". That level of external balance would be suitable which took into account the efficacy of global or regional trends. the economic benefits of the most scientific international division of labour have often been almost neutralised by restrictive influences on the political arena. So far as India is concerned, there is urgent primary work enough to postpone thinking about raising the level of external balance, and employment should first take heed of the primary objective of moving the Indian nation to the right—to the zero point—*after which only* discretion or discrimination might get some room. In the meanwhile, such a "zero" programme would have, incidentally, the merit of disturbing in the least the interests of other nations, specially those within the British Commonwealth of Nations, either by undue demands or by unhealthy competition. Britain desires a high level full employment because her standard of life is of the highest level in the world. She desires a high level external balance because by her industrial leadership, her shipping and her organisation, she is able to ensure an adequate continuance of international trade. But, for India to emulate Britain at the British level or anything approaching it would be an impossible task. Whatever the future of global trends, self-interest of Britain must make her jealously guard and maintain the principle of regional division of labour at least within the British Commonwealth of Nations, and herein lies a fair amount of economic security for India. The London *Times* sounded the true note when a special article therein declared recently:

> Britain would not be, and would never have been, a great power if Britain meant merely the people and the resources of the British Isles. Nor is it sufficient that relations between Britain, the Dominions, India and the Colonial Empire should be close and harmonious. The British Commonwealth can hope to play a full part in the world of the future only if it is able on vital issues to express its unity of purpose and interest with one voice

URBAN INTERPRETATION OF RURAL INDIA

Concluding a review of a recent economic survey in South India, it was said:

Urbanisation has come about in Indian mentality and outlook so largely that oftentimes even enquirers and editors look at rural problems from the urban view-point.*

The economics that we know and we speak about in India is urban economics, but the *real* economics of India is predominantly rural.

In both Britain and the U.S., even the austerest principles of war economy give the bare necessities of civilian life at least as high a priority as munitions themselves. In India, the belt has been tightened when there was less than no slack to take in.—The *Economist*.

The champions of industrialisation in India would be helping in further tightening the belt "when there was less than no slack to take in."†

PROBLEMS RECAPITULATED

Emanating from the foregoing, there are a number of special problems before Indian statesmen The issues enumerated hereinunder are important:

1. Whether in view of India being deep on the minus side in regard to consumption, any discretion lies at all before this country with regard to the type of technique to be adopted after the war for securing a higher level of employment: Taussig's "negative utility" could make little room for investment goods in the process of consumption: the sole objective now should be to reach "the zero point" —neutralising the minus side; or whether this country should "industrialise" along "the footprints on the sands of time" ‡

* The *Modern Review*, May 1942, p. 475.

† See Note at the end of this chapter.

‡ The following summary of a broadcast discussion by Sir William Beveridge on social insurance in India should be interesting:—

"The main problem of freedom from want in India is to my mind concerned with raising the efficiency of agriculture", Sir William said But India's industry would probably expand, and it was important that it should be properly distributed "to avoid the dreadful sprawling towns that we have in this country and the United States and in other countries. I mean distribution with reference to places where people can live happily".

Sir William would introduce the principle of insurance as part of the development of Indian industry. "If people are wage-earners they will not be kept out of want merely by having good wages", he said. "There will be times when they cannot earn good wages owing to sickness, accident, old age, and in any changing dynamic free society through change of employment which may mean unemployment, one must have some systematic plan guaranteeing wage-earners a subsistence income during these interruptions of earning."

When Sir Atul Chatterjee pointed out that industrial labour in India was largely migrant, Sir William Beveridge replied, "Movement between one part of India and another ought not to produce any difficulty at all, provided your security scheme applies to the whole of India. I assume—and I hope—that if you have a scheme in India you will apply it to all industrial workers there. One of the merits of social security as I propose for Britain is that

2. Whether the present occupational distribution in this country should be retained as a type, or be given up in favour of secondary and tertiary production:

3. How far an adequate educational programme is vital for minimising the stagnating forces of inertia, social prejudices, vested interests, lack of enterprise and labour problems:

4. How far the currency, exchange and banking needs of the country could be met by India continuing, as heretofore, as within the sterling *bloc*:

5 Whether cost and consumption surveys and censuses of production should not be immediately organised on an adequate scale in order to provide the powers that be with reliable data on which to proceed to policy-making · and

6 If a national maximum should not be laid down for individual incomes in the land—with a view to go nearer the practicability of a national minimum.

NOTE

The following Associated Press message explaining the policy of the Government of India with regard to the import of consumption goods is interesting:

An assurance about the Government of India's policy regarding the import of consumer goods was made in the Central Assembly by a Government spokesman this morning The Government's import policy, he said must be viewed in the light of five important points, the acute shortage of supplies, high prices, shortage of raw materials, transport difficulties which restricted the expansion of indigenous production, and the concentration of America and Britain on such articles were included in the imports as were only very important, like bicycles, razor blades, sewing machines, etc., and were essential and in general demand not only for agricultural population but the middle class as well. The middle classes were an important section of the consumer public. Only those articles were imported which were not produced in India in sufficient quantities to meet civilian demand.

Not one article in the list of consumer goods to be imported by Government will directly or indirectly affect any established Indian industry adversely, he said. The spokesman was dealing particularly with the comments made at the recent meetings of the Federation of Indian Chambers of Commerce and Industry.

Government's policy, he suggested, should be viewed against a background of which the main ingredients are firstly actual shortage of supply, secondly, high prices, thirdly, shortage of war materials and transport difficulties which restrict expansion of indigenous production, and fourthly, concentration on war production in the exporting countries of U.S.A and U K.

Articles are included in the list of import because (1) they are essentials and in general demand not only for the agricultural and industrial population but for the middle classes, who are all equally important sections of consumers; (2) their production in India cannot be stepped up immediately to meet the full internal civilian demand; and (3) they are things which though not essential in the literal sense help to keep morale up, such things as lipsticks,

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it emphasises the unity of the country and the people It makes them all members of a great corporation for abolishing want I would begin by applying social insurance in India where we began it in this country—to sickness, to providing income for sickness and treatment for sickness,"

for instance, of which it is considered essential in U.S.A. to maintain production.

In the second class mentioned above are bicycles, sewing thread, paper, tooth brushes, razor blades, hurricane lamps, metal and non-metal buttons, umbrella fittings, fountain pens, miscellaneous hardware and glassware. Sewing machines and their spare parts, which are not yet in production in India, are included in the list, while under woollen goods, indigenous production has till now been wholly taken up by military requirements, and only recently has a portion been released to meet civil needs.

The inclusion of bicycles and fans has been criticised from the point of view of the rural population's needs. This criticism, according to the spokesman, ignores the needs of the middle classes, for whom bicycles in particular are an essential means of transport. Bicycles are also coming into increasing use by the milkman, the small pedlar and the newspaper hawker in many cities.

The position as regards production in Britain and U.S.A. was summed up by the Finance Member in the Assembly in replying to the general debate on the budget. He said: "After all, Britain is fully engaged on the manufacture of munitions of war. The United States of America is to a large extent similarly engaged. Even if you could divert production capacity in those countries in order to produce the plant which you require, you then have to ship the machinery to this country. When you have shipped it to this country you have to assemble it, and when you have assembled it, you have to get a certain amount of experience of its working before you can get into full production. Will that, I ask, desirable as it may be, contribute to the solution of our immediate difficulties? I entirely agree that as soon as it is possible to import machinery and plant for the production of the goods this country requires, it certainly should be done. I am entirely in favour of all efforts being made now to import such capital goods, but must we wait entirely on the success of these efforts or shall we in the meantime endeavour to alleviate what is after all a very distressing situation?"

To these observations may be added the point that spare parts are not infrequently more difficult to obtain from abroad than finished articles, which again are generally released from stock rather than from current production. Even finished products such as radios, bicycles, light motor cycles are not available in adequate quantities. Their production is virtually stopped or restricted to meet defence needs.

Finally, the difficulty in the way of stepping up indigenous production is not only absence of plant and machinery but shortage of such essential raw material as steel and coal.

CHAPTER XX

ECONOMIC PLANNING IN HYDERABAD

SOME FUNDAMENTAL ISSUES EXAMINED

To many, "planning" spells communism and revolution, and they would rather leave the economic field at least to "free enterprise"—internal and international. But the advance of the industrial revolution into the twentieth century and the two world wars have proved beyond all doubt that "free enterprise" has led to, and must lead to economic imperialism—as some would prefer to describe it, international gangsterism Planning by the public sector has become almost universal in the course of these four years of a total war, and the economic (even ethical) benefits of public planning have been so great that even after this war, public planning will surely continue to play a large part in shaping and guiding economic activity The "home front" is the problem of maximising social welfare, and this front will continue to occupy men's minds for all time; for, with improved economic production and distribution, the ideal will rise to a higher level—as for example in Britain nowadays.

OBJECTIVE OF PUBLIC PLANNING

This war has made the world much more democratic than many a charter could have helped to make, but we are still not out of the wood Capitalist interests are powerful, and when that section speaks of "security" what it means is security of privileges of expected incomes of monopoly Secondly, there are the votaries of "power economy", the latest exponent of which is Field Marshal Smuts: as a Canada journal put it, his foreshadowing of the rule of the world by the trinity of Britain, the U.S.S R. and the U.S A amounts to the lowering of freedom in the name of discipline. The Nazis tried this way and failed, but one cannot be sure as to whether it might not again get the upper hand in some other garb. Then, there are the cosmopolitans, the internationally-minded, who say that all must agree to orderly progress based on different "paces" and "avenues" prescribed for different countries, the proposed pattern being a "mix-up". However much the intellectuals might claim this as meant for human welfare, it is not clear that this might not be one of the outlets for the working out of power economy. In practice, we see the tendency of the big powers to give standing orders to dependent nations to "stand at

ease"—awaiting further instructions and standing at "ease" according to instructions already in force. Last comes the welfare economy school which lays down that the sole objective of public planning should be maximisation of social welfare. The Hot Springs Conference last May laid bare the fact that capitalist interests have long been restricting the production of the world, and recommended that all resources should be set free. Sir John Orr said:

> The right of every individual to the means of attaining his full inherited capacity for health and physical fitness should rank as equal with his right to religious and political freedom.

In Hyderabad itself, we have had economic, dietetic, health, plague and malaria surveys, and each of these has been followed up by suitable executive action. The Hon'ble Nawab Mahdi Yar Jung Bahadur has been fighting for the expansion of primary education—in his own words, "for setting on its base the inverted pyramid of educational organisation". The Hon'ble Mr. Ghulam Mohammed has for the first time in the history of Hyderabad finance stressed again and again the need—the dire need—for "social justice" in taxation. The Rural Welfare Trust Fund and the Hyderabad State Bank are bound to play each a prominent part in any scheme of economic planning.

These and such other expressions are only further elucidations of the freedom from fear and freedom from want envisaged in the Atlantic Charter.

Principles of Public Planning

If as has been generally accepted, social welfare is agreed to as the objective of public planning in Hyderabad also, the next question deserving attention is—What should be the principles to be followed? Like the son-in-law abroad, there are some who want everything to improve in the shortest possible time—agriculture and industry, education and health, and fair distribution of the national income through taxation and limitation on rents, wages, interest and profits. There are many economists who in learned style evolve mathematical solutions based on the "investment multiplier" and the "ratio" and advocate an all-sweeping scheme of industrialisation. Some others plead for industrialisation of a type that should suit the big powers. Many say that education and health are the primary factors, and once these are reasonably improved, other things might be left to themselves. Lastly, there are a large number of thinkers who stress the adoption of the principle of "maximum social marginal net product" as distinguished from "maximum private marginal net output". A planned economy must allocate resources according to principles of marginalism.

The first ambition might be well left over for the politician or the poet: in economic terminology, it would amount to economic nationalism, and both from the view-point of resources and of ideals, this view has become old-fashioned We may now examine the pros and cons of an industrialisation policy.

The Industrialisation Bogey

"Some effective means must be devised to reduce the existing pressure on land and divert the surplus agricultural population to other channels." "The progressive countries of the world have been trying to redress the balance of the old by developing the radio, aluminium, rayon, synthetic dye-stuffs, extraction of oil from coal, and air and motor transport. The chemical and engineering industries are universally recognised to be the starting point in modern industrial development, but in India we have still to make a beginning in these directions" "Our agriculturists must be supplied with cheap machinery, for which a machine tool industry is a *sine qua non*." "Industrialisation has a notable advantage in that it produces a favourable reaction on national character and affords scope to diversity of aptitude and talent." Such are the swan-songs on industrialisation we are hearing nowadays in India, and even the Government of India is not slow in making promises of all possible help in that direction.

Industrialisation means raising capital intensity in the productive process: as the capital outlay per employee increases, we say that industrialisation process increases. The fascination for industrialisation arises from the fact that as the *per capita* outlay of capital increases, the *per capita* output increases at a much higher rate. The value of net output per head of operatives in Britain, Germany and the U.S.A., respectively in the years 1935, 1936 and 1937 taking total factory trades into consideration were £264, 294 and 595. There are degrees of industrialisation beginning with light industries like cotton mills and ending with machine tools factories. Industrialisation presumes an excess of agrarian population, that is, relatively small natural resources like fertility and area of agricultural land, and a plethora of capital emanating from a high national income and consequential high level of savings. As well it presumes huge markets (domestic or foreign) expanding even as production expands. It has been estimated that light industry involves 100-400 capital outlay per head of employee, medium-size industry of £400-800 and heavy industry of £800-1,600.

Estimating the number of earners at six million out of the total population of 16 million, and allowing for two million to be occupied in non-capitalised industry, four million persons would have to be

employed. If another two million should be knocked off as employed in agriculture, there would be a net two million to be industrialised. At £200 per employee (the cheapest rate of investment conceivable in an industrialisation programme), the minimum capital outlay required for Hyderabad should be £400 million or about Rs. 600 crores. Even spreading this investment over ten years, the annual outlay should be at least Rs. 60 crores,* more than five times the present Government revenue, and about 25 per cent. of the national income of Rs 240 crores per annum, while for ten continuous years, no people could be expected to save more than about ten per cent.; that is, saving annually could be at the most Rs. 24 crores but investment should be at the least Rs 60 crores per annum. In other words, about 60 per cent of the annual capital requirements would have to be imported from outside the Dominions. Capital means capital goods, and these always move with the necessary technicians. A new interpretation would have to be given to the term "mulki" for allowing this infiltration of external finance and enterprise—even taking for granted (it could not be granted at all in view of external circumstances) that capital goods and enterprise and technicians could be commandeered from outside like the sun and moon according to the calendar On the other hand, a capitalisation plan for a "zero" programme should entail about Rs. 240 crores in all, about a year's national income, to be spread over ten years. Even Rs. 24 crores a year, although quite practicable mathematically, should prove impossible unless traditional concepts of currency, credit and public finance both of Government and of the State Bank passed through the crucible.

Industrialisation also presumes ability to command distant parts of the world—politically as well as economically through adequate shipping and enterprise

A review of the present position of Britain to which she has been brought by the industrialisation process might throw considerable light on the problem in Hyderabad.

"British industry in these days, is far gone in the protectionist mentality ... A British manufacturer cannot, and should not, be expected to hold any market in fair competition. At home, the dominant policy is to erect barbed wire and "Trespassers will be Prosecuted" notices round every market. Abroad, the British exporter seems to have an equal fear of the American competitor with his high

* In these calculations, the additional expenditure for the maintenance of the increasing capital investment, and the addition to the income on account of greater capital intensity, are taken as cancelling each other, to be on the safe side. Although the annual average is spoken of, adjustments are presumed for an acceleration of the speed of production in the ten-year period.

wages and of the Asiatic with his low wages.—Most of the discussion of post-war export policy resolves itself into a rather pathetic search for the inherently impossible—that is, for ways and means for protecting export markets".

It has been stressed that hope for Britain lies firstly in keeping ahead in industrial efficiency and secondly, in maximum approximation of reduced costs to selling prices both at home and abroad—thus closing the chapter of high profits in industry.

The machine tool industry of Britain is less efficient than German and American, and hope lies in "continuing the Industrial Revolution", the maximum mechanisation of British industry and speeding up of replacements.

What is the position with regard to heavy industries? P. N. Rosentein Rodan writes:

> Even for the purpose of an expanding world economy, the existing heavy industries in U.S.A., Great Britain, Germany, France and Switzerland could certainly supply all the needs of the international depressed areas . Building up heavy industries in Eastern and South-Eastern Europe at a great sacrifice would only add to the world excess capacity of heavy industry, and would constitute from the world's point of view largely a waste of resources.

H. Frankel writes:

> Unless the raw material producing countries are industrialised, and the standard of living of their populations is raised, no new division of labour between Great Britain and these countries will be possible, and Britain's export trade will compete on disadvantageous terms with other countries whose internal structure is more similar to that of the undeveloped countries. The only offsetting policy seems to be the replacement of the individual manufacturer (who tries to sell everywhere) by industries which produce low-quality goods *en masse* and specialise in exports to special areas with low standards of living. Her trade with overseas countries could assume a higher division of labour by a planned exchange of manufactured products of greater value and quality against foodstuffs, raw materials and manufactured goods of simple design

These extracts show that the position of British industry at present is not as strong as it was before. Her industry alone has to bear the cost of heavy imports, without which Britain cannot live even for a few weeks The prospects of India building up heavy industries are not very rosy: we have not got the capital nor the technical labour, nor supplies of plant and machinery nor markets. It is easy to understand that no big power would help India to build up industries with whom she could later become able to compete. Countries which are already heavily industrialised will help India in setting up industries which are *complementary*. At present even

medium-size industries are difficult to set up as the availability of plant and machinery for several years after the war will be a difficult problem. India does not come within the purview of the U.N.R.R.A.

LESSON FROM THE U.S.S.R.

We are told: "Look at Russia. Has she not industrialised? Conditions in that country and ours are very similar. Then, why should we not also follow suit?" The following passages from the *Economist* and the *Eastern Economist* throw a great deal of light on these vague impressions:

> In Russia, the Bolshevists and the technocrats who had no intellectual grasp of the theory of capital structure, in their break-neck enthusiasm started the insane craze of building the "biggest" and the "most up-to-date" factories. Some of the undertakings were so colossal that they were not finished till eight or ten years later. Thus a large amount of capital was locked up. ... This meant an economic avoidable suffering for the masses.
>
> Thirty million men and women who were used to making most of the things they consumed, suddenly attacked the market with their newly acquired money in their pockets and demanded manufactured foods, factory-made furniture, electric lights, radios and most difficult of all, manufactured clothes and shoes. Russia's light industry given second or third place in the capital allocation (after heavy industry and transport) could not and cannot yet begin to meet that demand. Russia is still to-day a country of hungry buyers with their pockets full of money, ready to take almost anything even at high prices ... This expansion in population was due to expansion in industry. The supply of meat, milk, and eggs was halved: that of other foods hardly kept pace.

Thus, an industrialisation programme—even confined to light industries—is not so rosy as many imagine it to be. The experience of other countries which are much stronger than ourselves must make us cautious. And then, there are other considerations also which should bear their due importance when we consider this question of economic planning.

EXTERNAL BALANCE

We can take it that after the war, Hyderabad will emerge as a creditor country. This has led many to plead for Hyderabad earning a greater and a still greater surplus in the external balance of payments: it is argued that we should develop a Greater Hyderabad —with a growing favourable balance of payments and a rising process of investments abroad. The international schemes that have been put forward for acceptance by the United Nations are very eloquent on this fond hope of many an optimist. The five alternatives for countries developing a persistent surplus in the external balance are—

(1) enjoy the surplus by working the employee less and offering him more leisure and entertainment;

(2) dissipating the surplus, that is, create it by hard effort and spend it flippantly on "anything";

(3) invest the surplus abroad and thus really postpone the evil day—of expropriation, of destruction in war, of heavy taxation, etc.;

(4) become subject to rationalisation of production which means restriction of output and, therefore, less social welfare; and|or

(5) develop the home market by raising the wage roll of the country.

Of all these five alternatives, the last appears to be the soundest for India at the present stage.

But on account of the political factor, the level of external balance of the exporting countries has been and is being fixed (and perhaps will continue to be fixed hereafter also), by the selling countries. In the face of this defeatist complex of the politically dependent countries, the only wise course for them should be to occupy their resources fully in the production of wage goods at home.

Britain neglected this fundamental principle, but did not suffer on account of her gigantic power—her shipping, her export trade, her overseas investments which have been largely "disinvested" by now. Even after four years of war, the Britishers are not at all underfed: the first concern of the British Government is to raise the standard of comfort in that country after the war. But what about this country—India or Hyderabad? Even with the war outside her boundaries, India is intensely suffering from starvation—thanks to the almost criminal policy of neglecting agriculture. Food-grains, milk and meat, vegetables and fruits, enough clothing made at home, decent housing even in the most out of the way village—these are items which should engage the first attention of the public as well as the Government in *any* scheme of economic planning. For these ends, we want more of irrigation works, hydro-electric works, adequate rural communication and transport facilities, modern methods of farming (keeping intact the territorial and occupational distribution of the population), efficient and qualitative finance and above all leadership by Government. Of course, it does not mean that Hyderabad should not develop *any* industry at all involving imports of plant and machinery Sterling balances of India are about £700 million and on a very optimistic estimate we may expect about £800 million under lease-lend and against reverse-lease-lend from the U.S.A., thus making

up about £1,500 million worth of imports into India of investment goods from those countries according to a time-scale to be set by themselves. And out of that, under a quota system, Hyderabad might also get between £50 and £100 million worth. But, when, at what rates, of what kind, no one could tell now or even after the war, and it should serve no purpose for Hyderabad to live on this hope or fritter away the very thin resources available on contracts or agreements with foreign firms. For the time being, once victory is achieved, we must enter *a total war on the home front*. If and when we are offered the supplies, the most that we could do should be to take to the lightest industries—having in view our natural resources and our home demands for the products thereof. But all this should be clearly treated as *supplementary and not complementary to our basic programme.*

"Negative Utility"

Taussig distinguishes between positive utility which begins after the consumer starts to the right from the zero point, and "negative" utility which he secures before reaching the zero point and while still on the left of the vertical axis. "Negative" utility amounts to alleviation of pain rather than enjoyment of positive satisfaction, and this is the reason for the distinction made by him. The point we have to see here is that negative and positive utility do not bear comparison on a common standard at all, as the question of option to the consumer and evaluation does not arise while he is still on the minus side. This is the probable reason for the Indian Penal Code allowing a person to rob a shopkeeper in broad day-light upto four plantains and not becoming liable to conviction and sentence. Here in India and also in Hyderabad, the level of consumption is so low that all must admit that we as a nation are still far on the minus side, and all schemes of optional development must give place before this primary task of finding minimum food, clothing, housing, health, and education for the average citizen, for every citizen. Everything else should bend in order to enable the country to reach that point first at which option may open afterwards. Any disagreement on this prime principle should amount to transgression of marginal principles. A due observance of priority for this item means that we must first of all produce wage goods, that is, products that are consumed by the labourers, and all products relating to food, clothing, housing, health and education come within the definition of wage goods. Even among these, food, clothing and housing should claim preference to health and education, which, on the principle of equimarginal utility and severe limitation of resources, claim first attention.

The International Mirage

The following extract from P. N Rosenstein Rodan puts the position very frankly:

> If sufficient capital (national and international) is available for investment in "basic" industries, the normal multiplier effect will "naturally" lead to further industrialisation according to the advocates of this programme. The argument assumes, however, a smooth working of the equilibrium mechanism of balance of payments and capital movements, which is not likely to obtain in the structural disequilibrium situation after the war Industrialisation of international depressed areas, once it is accomplished, may create an equilibrium from which onwards normal private incentives may operate successfully. But it seems hopeless to rely on them before that point is reached.

Lord Keynes observes:

> Some countries are likely to be more successful than others in preserving stability of internal prices and efficiency wages and it is the offsetting of that inequality of success which will provide an international organisation with its worst headaches.

If backward and rich areas like Hyderabad remain outside the pale of such international organisations—specially with regard to external borrowing—the concerned international organisations—if and when inaugurated, will have less headache, and the backward areas themselves will have less misery. An international set-up should not include "infant" economic areas; experience shows that external management of infant areas has always led to eternal wardship. Let us remember that occupied areas of Europe stand quite on a different footing from India: even the Atlantic Charter has been given out as specially applying to European countries. The indefinite postponement of direct relations between the U S.A. and India with regard to lease-lend and reverse-lease-lend, the inclusion of India as a contributor towards the funds of the U N.R.R.A. (although perhaps at less than one per cent. of the national income) and the refusal of that body to give even token relief to Bengal are only *some* of the many unhappy gestures which should render us cautious in the extreme while considering participation in plans for world collaboration. Two very recent issues of the *Economist* echo the feeling in this matter in these words:

> In economics as in politics, there are limits to the surrender of sovereignty to which the nations will consent, and the plans must accordingly eschew the grandiose .. A system which was fully international ... was too rigid to cope with the changes of what promises to be a very mortal world.

Hyderabad should not be in a hurry when Britain herself has not made up her mind.

Social Insurance in Hyderabad

Minimum Additional Capital Requirements

The Beveridge Plan in Britain estimated to cost additionally about £86 million per annum provides for an "all-in" cover for every family in that country. The security plan put forward by the National Resources Planning Board in the U.S.A., goes equally deep into the question but stops short of laying down a national minimum—in view of the continental character of the country and diverse standards that at present prevail in the 48 States—nor does it assess the cost. After these schemes were published, the problem of social insurance has been receiving prominent attention in different parts of the world; this new psychology giving an economic status and an economic stake to the man-in-the-street, has been directly a product of the democratising effects of the present war, and the revelation (again a consequence of the present war) that the raising of the national income was both practical and highly desirable. When we think of social insurance for Hyderabad, the head reels in most cases. We have not got even the first elements of life insurance. How could we think of social insurance? Where is the talent? Where is the money? Where is the organisation? These and such other difficulties obsess our minds, and the natural inclination would be to read of happenings and developments in Britain, America and other progressive countries —just as we read the *Arabian Nights*, and perhaps wonder if the time would ever come at all when such questions could be discussed as part of practical policy in these Dominions.

The situation is not at all so discouraging, and there is no reason for our heads reeling on account of gazing at the pinnacles in other countries. The first truth we must remember is that according to the estimate by Professor Simon Kuznets, the *per capita* income in Britain in 1938 was £90, and it was $500 in the U.S A. in the same year. In India, according to the latest estimates available (however conjectural), the *per capita* income in British India in 1931-32 was B.G. Rs. 62. Now, even after leaving all possible margin for differences in climate, efficiency, traditions, etc., etc., still the basic fact remains that we in India are far on the minus side of a decent minimum physical subsistence level. Option in regard to planning for social security in diverse ways could obtain only after the minus side had been completely neutralised. Till then, the only first step in our planning should be to reach the zero point—if we adopt a reasonable scale of preferences, and if we do not propose to fritter away the small resources we possess, even an estimate of which we have not got by now. The heavy industries and the making of producers'

goods in general cannot be taken up by us unless and until we realise a decent national minimum.

Occupations are generally classed into primary (the growth of food and raw material, the raising of minerals, etc.), secondary (manufacturing with the aid of power) and tertiary (comprising services of all kinds). The present war has categorically proved that inadequacy in the first class and increase in the latter two are bound to lead to instable economy. British psychology looked down upon agriculture for several decades, and now with her high and peculiar (requiring predominantly outlandish things day to day) standard of living, she has come to the position of safeguarding her consumption through an adequate export trade: the criterion in this case is, not the decision of the buyer, but that of the seller. Britain *must* sell abroad *because she must*—even like the poet who sings because he must. The Indian distribution of occupations is—primary 62, secondary 14 and tertiary 24. In Britain, primary occupations employ 6 per cent. of the working population It follows thus that in any programme we accept for social improvement in these Dominions, an essential condition should be that as far as possible, the occupational distribution should not be pulled out of its present proportions.

What should we understand by doing away with the minus side? The answer is very simple. In food, clothing, houseroom, education, health and *some* elementary life insurance, we must plan not only for universality but also for attaining a decent level. Dr. Aykroyd complains of malnutrition in Indian diet but more realistically, a recent conference of medical men at Delhi stressed the more elementary test of appeasing or satisfying hunger: the stomach wants a fill: quality and discretion come in only after granting the first condition. And filling presumes co-operation of the consumer—which in turn means pleasurable filling. A stomachful of wholesome toast is any day preferred to half a mouthful of precious Christmas cake.

Again, between recurring annual expenditure and *initial additional* capital outlay (we do have some little capital outlay even at present along these avenues), the first problem should be naturally the latter. In Britain and in the U.S.A., the process of capitalisation reached a high standard even before the present war. The present war has further raised the intensity of capitalisation. So, in those countries, the chief problem is annual expenditure on social insurance. Here in India, our capital outlay is very negligible. So, we must begin with this work. Unless adequate capital is put in, the goods and services concerned cannot be expected to be efficient, and the cost will be high. Let us now briefly present the minimum capital outlay required *at the moment additionally*.

Crores of O.S Rupees (approximate) additional Capital Outlay required to start with "for a Zero Programme"

Item		Remarks
Agriculture—		
Debt rationalisation	10	Mr. Bharucha estimated the debt burden on agricultural land in Hyderabad at Rs. 64 and odd crores.
Modernising cultivation keeping intact the present small-scale ..	50	We have over 30 million cultivated acres, and at least Rs. 17 per acre is required including irrigation, hydro-electricity, enclosure, initial manuring, accessories, livestock, forest conservation, etc.
Clothing and other consumption goods industries (including water supply, dairying, poultry, fishery, cottage industries, etc.)	40	We arrive at this figure at Rs. 25 *per capita*—whether the type be the small-scale or mixed.
Housing	80	Sixteen million people should have about 4 million houses Presuming that half the number of houses are already there, 2 million new houses at Rs. 100 *per capita* outlay gives Rs. 80 crores.
Health and Sanitation	10	
Education	20	The school-going age population is at least three million, and at least Rs. 65 capital per head is required for equipment in the shape of buildings, accessories, etc.
Communications and Transport ..	20	Rural as well as urban.
Miscellaneous	10	
Total ..	240	

Scientific estimates of the national income of Hyderabad have not been made yet, but calculating on the population basis—we are about four per cent. of the whole of India—it can be said that at the purchasing power of the Hyderabad rupee in early 1942, the national income of these Dominions is about Rs. 240 crores. Thus the question resolves itself into this. Can we not gather together this amount of capital for our initial purposes? Well, supposing that this work will occupy us for ten years. It follows that we require this amount in ten years—distributed over the period at an accelerating rate. While for meeting the recurring annual expenditure, public opinion and public finance would have to co-operate in laying down a national maximum and thus far toning down privilege and anticipated high incomes, the initial capital programme needs investment getting a remuneration in the shape of interest—however low it might be. With the right and full propaganda, it should be child's play to pool together this amount in suitable instalments spread over the ten years.

One might ask—Where is the money? We have neither so much gold nor silver. The answer is—we want neither gold nor silver but purchasing power, and purchasing power is made, not by gold or silver, but by the output of production. In other words, as our production scales develop, business activity increases, and as the latter increase, the need for more money is felt: it will be the duty of the currency and credit organisations to do the needful—print more notes and create more deposits. The British currency to-day has not got even 0·1 per cent. of gold backing in the reserve of the Bank of England. So long as production keeps pace with currency services, there can never occur an inflationary tendency.

Another question arises. Where is the material? Which country will give us so much equipment at one jump? This is the crux of the problem. But, the matter of fact is that in our "pilgrim's progress" we do not need much material from outside. Here is the complete list of our requirements in material—natural as well as human: agricultural soil, clay, lime, sand, stone, wood, bricks, cotton, cattle, vegetable oil and forest products making numerous kinds of medicines. All these we have in plenty: we have only to pick them up from where they are literally rotting. On a peace platform, India produces annually iron and steel sufficient for her normal needs, and Hyderabad should be able to get the iron and steel needed—against her numerous *surplus* products for which there is great need in British India. The complaint has been often heard that we lack in manures. We might lack in artificial manures, but the need for artificial manures arises only in case natural manures are lacking. Provided our forests are properly conserved and utilised, we should be able to get adequate quantities of valuable manures. With regard to rare medicines, apparatus and delicate instruments, even the U.S.A. lacks in these things. In the early years of the war, the U.S.A. remonstrated against the "navicert" arrangement by Britain because she could not get the finer instruments and apparatus from Germany: they were being produced then nowhere else in the world. If that was, and probably is, the position of the U S A. with regard to such highly specialised material, it would be not far short of madness for us here and now to think of excelling along those and such lines of production. By first confining ourselves to the elements, we save ourselves from the depression devil—which in the world to-day is dormant on account of the presence of the bigger devil—the war boom. In every process of "industrialisation", there is the inevitable "drop" to the "bottom" when expansion in demand practically closes, and further needs become confined to replacements only. In financing adequately initial capital outlay on items discussed here, there is absolutely no room for a cyclical trend as demand for the items discussed herein is

of a circulating type and must recur decade after decade—for certain, at the minimum level forecast, very probably at higher levels for several scores of decades at any rate.

With regard to man-power, we require large numbers of teachers, overseers, doctors, other kinds of labourers, but all of the average type. We have them in plenty. And let us remember that we need them at an accelerating rate during the next ten years: the boy or the girl in the First Form this year will be a graduate ten years hence. As we need more hands, we also go on producing stout-hands and training more hands. At least a half of the entire production (the women of the land) who are now more or less on the status of domestic animals, will with proper education add powerfully to the man-power of the country—even as it is being done in Britain—as we get along during these ten "revolutionary" years.

Needs other than food, clothing, houseroom, education and health should be provided for in an elementary way by a national system of endowment policies of Rs 1,000 minimum for each worker in the land. If war risks insurance was possible to work—with 100 per cent. uncertain air-raids—it should be possible to work such a system on a self-supporting basis—of course with *some* aid from Government in the beginning. No initial capital outlay is necessary. We have about five million workers here. Rs. 3 a month for every urban worker (minimum) and Rs 20 per annum (minimum) for every rural worker—half to be contributed by the employer and the other half by Government, and leaving aside all cases of higher insurances —should make the Hyderabad Government Insurance Department as big as the whole Goverenment to-day, and the spreading of the risks is bound to enable the scheme to yield very beneficial results. The Government contribution should prove a matter of book adjustment, the *net* profits going to Government—as in the case of the Reserve Bank of India. On many occasions, these insurance funds have been very useful to Governments—as a minimum percentage of the funds has under the law to be in the form of Government paper. The allotment of 2 per cent. on the full insurance policy amount per annum as bonus by the Hyderabad Government Insurance Department is a proof of the pudding. In the case of Government insurance as in Mysore and Hyderabad, the entire funds held in liquid form strengthen the Government cash balances, and investments of the funds should help the general capitalisation programme.

To enjoy the benefits of literacy, we should learn the alphabet first. Here are the alphabet. Let us be sure of sound foundations. The superstructure will and must wait. Let us accept a schedule of reasonable priorities. Let us not aim at decorative ornamentation—"window-dressing" if you please—when the stomach is hungry.

AN INVESTMENT BUDGET FOR HYDERABAD

Over a period of ten years we would require at least Rs. 240 crores of further capital outlay (additional income during the period being overlooked against capital maintenance requirements, to be on the safe side) on what might be called 0 "Zero" programme, meaning that outlay which would be commensurate for raising the national standard of life to a satisfactory level. This would necessarily include most consumption goods industries with a predominant bias for the small-scale wherever economically possible.

The following figures could be taken as the basis for further discussions and calculations:

Rs 240 crores have been shown as the rock-bottom requirement during ten years on food, clothing, housing, etc., in an earlier paragraph. The Sargent Scheme estimated to cost in course of time over B G. Rs. 300 crores per annum for British India only, the proposal of the Indian Communications Member to spend B.G. Rs. 319 crores on the Railways during the next seven years—such official estimates in British India should warn us against undue under-estimation. As it is, the supreme interests of agriculture are being practically ignored as well in British India as here. If we really want Indian agriculture to come in to its own, the piper will have to be paid. For instance, collective farming has great prospects in India, but this would mean the establishment of about 600 agricultural stations spread over the Dominions with first class arrangements for the different agricultural processes—to be made available to the cultivator (if and when possible on a collective farm: for the moment, on his own farm) on the spot, with the system of collecting the charges at harvest time in kind This system would comparatively free the raiyat from the pangs of price depressions, at the same time enabling the authorities to hold at any time an amount of produce with which they could stabilise market conditions as also ensure supplies to urban areas.

About a half of this bill would have to be met by Government and the other half by the public on private initiative. Government could raise Rs. 120 crores in ten years thus·

	Rs. crores
Rs. 70 crores non-recurring—through selling B G. securities held in the several reserves beyond the required maximum in each	20
Through loans from the public during the ten years	35
Through "created" money made possible on account of higher levels of employment—including currency profits	15
TOTAL	70

Rs. 50 crores through a re-adjustment* of taxation as follows:—

	Rs. crores
Income-tax† with a higher exemption level than in British India and with half the rates prevalent there	+2
Agricultural income-tax‡—with a liberal exemption level and with slabs on land revenue assessment	+0.5
A general sales tax§ with liberal exemptions (retail) at 5 per cent., entailing the collection of the customs duty at the retail stage on account of this general *ad valorem* retail sales tax at 5 per cent.	+4 5
Additional selective sales tax on luxuries (including present excise items)	+2
Increased use of forest products	+0 5
TOTAL PER ANNUM	+9.5

(not including an estates duty and gradual abolition of *jagir* exemptions from land revenue).

Remembering that all these could not be introduced at once, we might presume only five years' collections during the ten-year period, which should give in all at least Rs. 50 crores. That is, funds on Government side would have to come from (1) utilisation of part of B.G securities in reserves, (2) part of cash balances, (3) surpluses in future on account of new taxation and larger revenues on account of increase in national income, and (4) borrowing from the public.

Rs. 120 crores would have to be found by private initiative thus:

	Rs. crores
Hoarded wealth	5
The balance of payment at Rs. 5 crores a year on the average	50
Private investment (in addition to that in the shape of Government loans) at about Rs 6½ crores a year	65
Total conrtibution by the public directly	120

External borrowing should involve great complications. Fire is useful, but external finance is always like fire coming in as master, not as servant We could borrow considerably abroad if we wanted, but this item has been omitted from these calculations as being on the whole more an evil than good—at any rate for the next decade or two.

All this nerve would be required for capitalising programmes for feeding, clothing, housing and educating a healthy population.

See Notes for * † ‡ § at the end of this chapter.

Apart from the desirability or otherwise of taking to a full-blown programme for heavy industries, it should not be practicable to think of them unless and until the primary requirements enumerated *supra* had been met If heavy industries should get first and exclusive attention administratively and financially, to that extent the basic requirements of a respectable standard of life should suffer.

On the pre-requisite of a national government, stressed so much by the Bombay Memorandum, the major Indian States have already more national governments, and as everybody knows, Baroda, Mysore and Travancore are ahead of British India respectively socially, industrially and educationally The Osmania University in Hyderabad is an achievement which the Punjab could not pioneer in developing (that is, in using Urdu as the medium of instruction to the highest standards in the University) although that Province had the unique advantage of one language only. With regard to the relation between popular government and economic development, it is reciprocal. Which was the first-comer—the hen or the egg? It would be a stalemate for India to sit with folded hands until that day on which India got a national government. The Sargent Scheme and other official estimates for post-war planning in British India, show that after all, however little powers might be possessed at the centre, the Government of India *even now* do not lack hopelessly in breadth of vision. With public opinion supporting them, even the present Government of India must be able to do a great deal in laying true foundations for post-war planning.

NOTES

* LAND REVENUE REFORM

With the idea of freeing small landholders from the burden of land revenue assessment, and at the same time, of avoiding discrimination at the border line, we suggest that landholders who pay at present Rs. 10 or less of land revenue per annum, be exempted from such payment, and in the case of landholders who pay more than Rs. 10 per annum, the first ten rupees be similarly exempted from collection. The probable loss of land revenue on this account is about a crore, and this figure has been worked on the basis of figures from Mr. S. M. Bharucha's Report on Agricultural Indebtedness. In 312 villages taken up by him for survey, landholders totalled 50,210 —
those paying Rs. 10 or less numbered 15,588,
those paying between Rs. 10 and Rs 50 numbered 24,848 and
those paying more than Rs. 50 numbered 9,774
Total land revenue paid by all of them was Rs. 18 lakhs, and if all land revenue Rs. 10 and below in each case were exempted from payment, the maximum loss should be about Rs. 5 lakhs, or about one-third of the total land revenue. In fact, many of the 15,588 of the small holders pay less than Rs. 10, and so, the actual loss in land revenue should be less than Rs. 5 laks, but to be on the side of safety, the proportion of one-third has been accepted. Our land revenue collections are about Rs 3 crores, and thus, the loss on account of the proposed exemption should on no account exceed Rs. 100 lakhs per annum According to the 1931 Census Report, the number of occupants of land is 1.1 million, and thus the Rs. 10 exemption would not in any case exceed one crore of rupees. By the 1941 Census, the number might not be more than 1.2 million.

It may be added for information that if the exemption be limited only to the landholders paying Rs. 10 or less of land revenue, the loss would be about three-fourths of a lakh (more exactly, 0.73 lakh) out of a total of Rs. 18 lakhs. This would give a proportion of 5 per cent. at the most, that is, loss of land revenue should be at the most Rs. 15 lakhs. But, the limitation of the exemption in this way should involve administrative difficulties, specially with regard to landholders on the borderland

It may be further added that this reform does not contemplate relief either from seasonal or price fluctuations. Such relief, if intended, should involve the system of collection of land revenue in kind, and on the model prevalent in the U.S S.R.

INCOME-TAX

In Britain in 1943-44, income-tax brought in about a third of total Government revenues. In British India, in the same year, including the revenues of the Provinces, income-tax revenue was Rs. 90 crores out of a total revenue of Rs. 400 crores approximately On a population basis, we are at least 5 per cent of British India, and proportionately speaking, at present British Indian rates of income-tax, super tax, surcharge and corporation tax, we should be able to realise at least Rs 4½ crores per annum. But, we have suggested that we might start with half the rates prevalent in British India, with a higher exemption level. After allowing for the fact that the average income in Hyderabad might be slightly lower than in British India, and economic activity is still comparatively backward here, still there is no reason why at least Rs. 2 crores per annum should not be expected. This is the average we put down for the ten-year period. Surely, in the latter part of the period, income-tax prospects should be brighter than in the beginning

AGRICULTURAL INCOME-TAX

It is submitted that over and above the Rs 10 exemption from land revenue, suggested in connection with land revenue, the incidence of land revenue should be rationalised by the introduction of an agricultural income-tax Landholders paying land revenue of Rs. 100 or less should be exempt from this tax, and on the slab system, higher agricultural incomes should be subjected to higher rates of taxation ranging from 1 anna to eight annas per rupee of land revenue incidence.

About forty per cent of agricultural land is said to be in *jagir* area, and thus, *pro rata*, at an average of four annas per rupee of settlement rates in *jagirs*, the revenue should be one-fourth of about Rs. 120 lakhs (which latter sum should have been collected from the *jagirs* if they were subject to payments like pattadars), that is, Rs. 30 lakhs. In *diwani* area, taking the average incidence of agricultural income-tax at annas two per rupee of land revenue, the income should be at least Rs. 25 lakhs. In any case, this tax should bring in at least Rs. 50 lakhs per annum, even at the low rates suggested.

NOTE.—All *jagirs* would pay this tax on land revenue settlement basis although not paying land revenue actually.

A GENERAL SALES (OR TURNOVER) TAX

1. The post-war period is sure to see lower prices than at present, although prices might not go down to pre-war levels.

2 Economic planning involves the Government in very heavy capital outlay and recurring expenditure as well, and ample room should be found for Government financing.

3. In the new plan, Government will do so much for the average citizen in the shape of increasing his real income that a general five per cent. *ad valorem* sales tax should not be heavy either on the consumer or the producer as the case might be In fact, the customs duty has accustomed us to this five per cent. levy. On all home-made goods, the producer would pay the sales tax: he has been bagging this as part of his profit, on account of the present import duty: the consumer would thus be not further burdened with regard to most of his incomes of consumption.

4. A general sales tax is no doubt not progressive but regressive, but such taxes are not avoidable in modern times in view of the heavy bill to be met by Governments.

5. We in India are more accustomed to such taxes on production or sale, *e.g.*, on vegetable ghee, tobacco, etc.
6. The introduction of a general retail sales tax in Hyderabad should entail the collection of the present customs duty also at the retail stage. Thus, while the right would continue to be with us and the actual levy also would be there, some economy could be realised in cutting down the heavy expenses now being incurred for preventing smuggling, and for collection of the duty all along the long land frontier.
7. Such a general sales tax would not affect producers to the extent of their own consumption. Also, there would be naturally liberal exemptions—just as we have exemptions with regard to the customs duty.
8. Our customs revenue is about 1½ crores per annum. Calculating local production consumed locally at five units for every one unit of imported goods, we should be able to get Rs 7½ crores from this tax. Leaving a broad margin for exemptions, etc., taking local production locally consumed and subjected to the sales tax at three units for every one unit imported, we must be able to collect at least Rs 6 crores—including the 1½ now being collected as customs duty.
9. This, incidentally, would give us much better statistics with regard to internal trade, than at present.
10. If, however, the tax is levied on production for Trade at the source, the customs duty now being collected could continue as at present undisturbed.

NOTE.—In the U.S.A., 1935-36, the Sales Tax accounted for 3.7 per cent. of the total governmental revenue including federal items. The following are the percentages of the sales tax proceeds to total revenue in some of the important countries:—

Country	Sales tax as per cent. of total revenue 1935-36-37
Australia	14.6
Canada	36.9
Belgium	25.0
France	17.6
Germany	20.8
Italy	6.9
Russia	86.6
Turkey	10.5
California	21.7
Illinois	15.0
Indiana	13.0

CHAPTER XXI

AN EIGHT-PRONGED FIRST STEP

"There can be no doubt that the most important economic and sociological aim of those responsible for the Government of our country is to raise the standard of living of our many millions. That this standard is appallingly low is a matter that needs no argument and one has only to mention the distressing happenings in Bengal and elsewhere as unmistakable signs of the existence of something rotten in the foundations of our national economy—something that calls for very serious thinking and sustained effort on the part of every one of us, be he an industrialist, a practical banker, a professional economist or an agricultural expert."—SIR C. D. DESHMUKH *at the Fourth Conference of the Indian Society of Agricultural Economics.*

"Thus evolved, the new Hyderabad financial machine, with throttles and brakes, with high, low and reverse gears, should differ considerably from the old financial horse and buggy contraption."—*Adapted from the "Economist".*

THUS our first step should comprise eight prongs:

1. The appointment of an expert External Economic Affairs Committee;
2. Monetary Planning;
3. Adequate progress in irrigation works and hydro-electricity;
4. Commensurate research and propaganda affecting rural economics;
5. A re-orientation of the Co-operative Movement;
6. A thorough-going land mortgage banking system; and
7. A Rainfall and Livestock Insurance Organisation worked on Co-operative principles, but as a separate entity.
8. Decentralised Agricultural Stations.

Some details of these are dealt with below.

MONETARY PLANNING

With reference to monetary planning in Hyderabad, the points enumerated below might be of general interest.

1. The link between the B.G. rupee and the O S. rupee should be the most natural ordinarily, Hyderabad having most of her external dealings with British India. This is the reason for the Canadian dollar linking itself to the United States dollar. But the highly undesirable depreciation of the B G. rupee in terms of goods, and the prospective further depreciation of sterling after the war, are to be weighed when judging the present and the prospect of the local

rupee. The United States dollar commands the highest stability in the world to-day, and Canada could not do better than to link with that currency. But if the British pound depreciates after the war (as a result of deliberate policy), if the 18*d.* ratio continues, and if the Rs. 16-17 link continues in Hyderabad, the purchasing power of the Hyderabad rupee should go down quite undeservedly. This is why there is a case for freeing the local rupee from the British Indian currency.

2. Exchange readjustment is a fully legitimate apparatus for co-ordinating monetary planning to general economic planning The prime questions are—Where do we want the level of consumption to be in Hyderabad in, say, the next ten years? After we make up our mind about this, we must determine the level of employment of our resources suitable to the level of consumption aimed at. In fixing the level of employment comes the question of the level of external balance, that is, of the level at which the export and the import of goods and services should be balanced. In the case of *Britain*, a high level of external balance is an inevitability: that country lives on foreign supplies of foodstuffs and raw material. But this need not be the case everywhere. In the course of about ten years, Germany reduced her external balance from about 12,000 Rm to about 6,000 million Rm per annum by deliberate policy, and this same period saw a remarkable increase in internal production (that is, employment). Generally a high exchange points to a low level of external balance and a low exchange to a high level. Because Britain needs a high external balance, that country is anxious to depreciate its exchange after the war: in fact, the two alternatives before Britain would be—lowering of the standard of life, or lowering the exchange value of the pound. In India and also in Hyderabad, conditions are quite different A high level external balance is not only not necessary but should entail this country in undesirable consequences. We grow or make *most* of our consumption requirements, and the external balance should comprise only a few sundries

3 A page from history might be instructive About 1919 after the last Great War, exchange in Hyderabad had gone up so high as H S Rs. 102 = B.G. Rs. 100 With the little silver that they could get, the currency authorities did add to the supply of the local rupee coin, and the paper currency had just been started. So, what happened? The authorities left the exchange to find its own level, and the peak was 102! Supposing to-day the rate were the same 102, how should we have been affected? For the duration, if the authorities had allowed the exchange to find its own level, the local rupee should have certainly appreciated—if not to 102, at least to 105. This appreciation should have proved a natural check to the infiltration

into Hyderabad of the inflationary conditions in British India. Our price level should have been lower instead of dancing to the tune of the British Indian level as at present Less B G. should have sought conversion into O.S. and the need for sympathetic inflation should have been less. In fact, the narrowing down of the exchange limits to 116-117, a highly desirable reform in normal times, has resulted under the extraordinary circumstances of the present time, in insuring the middleman against any risk, and directly exposing both the producer and the consumer in Hyderabad to the epidemic of inflation.

4. Does the Hyderabad citizen deserve a certain amount of insulation against hardships that are being heaped on him by external forces? He deserves such insulation on grounds of circumstances, but policy must co-operate and not neutralise his vantage position. This problem of monetary planning is of the most fundamental importance and the question should be discussed scientifically.

Public Works

The following table from Mr. Bharucha's Report illustrates the great uncertainty of rainfall in these Dominions:—

Average Rainfall

Sl. No.	Districts	1325 to 1326 F	1340 to 1341 F	1342 to 1343 F	1329 to 1330 F.	1335 to 1336 F.	1338 to 1339 F.
1	2	3	4	5	6	7	8
1	Warangal	40·55	46·74	44·39	19·93	26·35	32·17
2	Karimnagar ..	36·70	44·58	43·83	14·23	23·50	23·63
3	Adilabad	47·19	51·96	52·67	20·38	31·50	32·58
4	Nizamabad .	46·55	45·94	44·74	18·46	26·48	28·43
5	Medak ..	51·05	39·78	43·86	15·39	20·68	25·38
6	Baghat ..		34·57	34·40	..	14·83	17·70
7	Mahbubnagar ..	47·56	30·50	35·16	14·96	20·05	20·45
8	Nalgonda ..	39·64	28·23	26·60	18·59	15·26	19·92
9	Aurangabad ..	43·51	43·03	33·81	9·93	23·21	20·03
10	Bhir .	40·86	38·85	31·67	11·82	22·43	22·81
11	Nander .	50·07	45·60	42·05	12·58	23·71	28·01
12	Parbhani ..	42·63	51·19	42·50	13·62	25·91	25·92
13	Gulbarga .	45·73	26·71	32·22	13·46	26·06	20·17
14	Osmanabad .	50·80	33·90	33·42	15·54	27·78	21·93
15	Raichur .	40·39	22·28	29·23	13·93	12·83	17·78
16	Bidar ..	44·71	42·64	41·18	14·18	27·18	21·29
		Good rainfall			Exceptionally bad years		
	Average for Dominions	44·53	39·16	38·23	15·13	22·99	23·60

The great scope for a forward public works policy in India is explained in the following passage:

A policy of Deficit Financing is eminently suited to a country like India. For a long time, the tradition in India has been to look to the Government for initiative in the economic field. The Government has been the dominant factor; while the Government has led, private enterprise has only followed. Besides, in India there is no 'Big Business' as in U.S., with powerful vested interests to contend with. Further, India like Sweden has always maintained the traditions of sound finance. Her budgets are usually balanced and whenever the Governments—both Central and Provincial—have borrowed and have incurred budget deficits for the purpose, they have done so only to invest in safe self-liquidating projects. Again, definite provision is generally made in the budgets of the succeeding years to make up for any deficits in the previous years. Besides the 'secondary effects' of Deficit Financing can be fully secured in India. The 'Multiplier' can be made to attain the maximum limit and leakages kept down to the minimum. India's economy is almost self-sufficient, her foreign trade being only a small proportion of her total trade Moreover, unlike the advanced industrial countries of the West, there is an absence, in India, of any scheme of unemployment relief paid for out of loans, so that incomes of Indian workers from increased public expenditures are likely to be in the main, additional incomes. The final evaluation of a policy of Deficit Financing as an instrument of economic stabilisation depends upon how far the perpetual conflict between business and government can be reconciled. Private enterprise, operating in a perfectly free market can function automatically with a high degree of efficiency and achieve a high level of employment. At the opposite extreme, a highly centralised authoritarian State can also, by itself, command direct the productive resources with equal efficiency. But in the present hybrid economy which is neither free nor regimented the economic organisation continues to be subject to frequent booms and depressions, which can be controlled only by artificial correctives such as monetary policy, Deficit Financing and consumers' credits. And, so long as this system of imperfect competitive capitalism exists, Deficit Financing, in combination with the other methods, has an indispensable function to perform as an effective instrument of regulating private investment and so bringing about economic stabilisation

—(The *Indian Journal of Economics*, Vol. XX, pp. 582-83).

Mettur and Pykara projects which earned 4.47 and 7.26 per cent. respectively on capital outlay for the last year, are the latest instances of Government activity in utilising water resources for irrigation and hydro-electricity as well in British India, but it was in 1902 that hydro-electric power was produced at Shivanasamudram in Mysore, for the first time in the East Since then, the great Krishnaraja Sagara project with the Irwin Canal and the hydro-electric section, nine further extensions in the Shivanasamudram Works, the Shimsha and the Jog Works have all maintained the Mysore State in the front rank in this respect in India. Apart from the Tata Hydro-Electric Agencies, Ltd. (which is due to the driving power of the famous

Tata family that found such successful expression in numerous industrial fields), the capacity of the three works being 0.246 million H.P., the Mysore Government electric installations rank first among Government undertakings, the capacity of the Mysore Works at present being 0.107 million H.P. The Industrial Commission wanted a thorough-going hydrographic survey more than a score of years ago, but we have had only "outlines of programmes of investigations" till now. The *net* revenue from electricity was Rs. 46.69 lakhs in 1938-39 in Mysore, excluding contributions to depreciation and provident funds, and 12 per cent. of the gross revenue of the State was realised in that year from Krishnaraja Sagara, hydro-electric and other irrigation works. The natural resources have been developed so efficiently that the working cost per unit of electric current was 1 97 pies in that year. Cheap electricity has been the forerunner of numerous industries, the first of which to use current in large quantity was the Kolar Gold Fields. The Mysore Iron and Steel Works, the Paper Mills, the Cement Factory and numerous others followed in deriving power from Shivanasamudram and Krishnaraja Sagara. The power generated was 252,095,833 B.O.T.U., of which 207,600,804 B.O.T U were distributed during 1938-39, to power and lighting and pumping installations Four hundred and seventy-five power installations and 3,699 lighting installations were added, bringing the total number in service to 4,815 of the former and 38,370 of the latter. Besides these, there were 17,225 street lights (inclusive of 2,930 ornamental lights). Of the total number of units sold during the month of August 1940, 677,807 K.W. hours were for domestic purposes, 16,148,541 K.W. hours for power (industrial, etc.), and 545,726 K.W hours for street lights. The total number of consumers during August 1940, amounted to 46,957 as against 46,690 in July 1940. The number of towns and villages electrified was 198 It can be asserted that electricity has become quite popular in villages as well as in towns—for lighting and for power. The astounding success of the Mysore Sugar Company is due to the vast expansion in wet cultivation brought about by the channels from the Krishnaraja Sagara The benefits of both irrigation and hydro-electricity have been spread practically to all the districts and the scope for the development of garden factories in nooks and corners of the State, using this power, is very great in the near future. The expenditure on capital works not charged to revenue, to the end of June 1939, was Rs. 18 1 crores while the liabilities on account of public debt and unfunded debt on the same date was Rs. 14.2 crores. The interest charges on the debt are much lower than the yield on the capital outlay, and the general tax-payer is thus saved from taxation to the extent of the difference between the two. This is the chief cause for the increase in the income of the Government in about seventeen years by one crore of rupees.

The programme of the Hyderabad State in the matter of irrigation and hydro-electricity has a thoroughness and steadiness of its own. The following table shows the great schemes the Hyderabad Government have before them for the next few decades in order to raise the standard of life in the State by bringing three million more acres under irrigation and supplying over 200,000 K.W. electric

power for industries and for homesteads. The bill is expected to go up to over 65 crores, but the foundations so soundly laid and the basement constructed thereon during the last eighteen years can be expected with confidence to accommodate this huge financial superstructure which will house the entire population in comfort. But how speedily these projects will be taken up and completed will to no small extent depend on co-operation by the British Government in India: Many of the projects are inter-statal

Name of project	Area estimated to be irrigated in acres	Estimated generation of electric power in K.W.
Tungabhadra	500,000	38,000
Devanur . .	..	17,800
Nizamsagar	..	2,800
Kaddam .. .	20,000	7,000
Purna	60,000	4,000
Manair .. .	10,000	700
Penganga	..	7,000
Godavari .. .	.	65,000
Lower Krishna	1,000,000	50,000
Upper Krishna ..	1,000,000	30,000
Bheema	400,000	..
Bandarpally	10,000	..
	3,000,000	222,300

This is apart from the expenditure already incurred so far on minor irrigation works in the State which amounts to over six crores. Major irrigation works like the Nizamsagar, Pocharum, Wyra, Palair, etc., have cost the State another six crores. The total revenues of the State from irrigation were Rs. 144 lakhs in 1935 and Rs. 145 lakhs in 1936: this was in spite of a period of depression.

In British India, we have some big enterprises in this field in addition to the 154 crores invested on irrigation works, but compared to the resources available and the size of the country, the pace of advance has been slow. And now with war prepossession, and with suspended constitutions, there is every fear of such projects being postponed for long periods of time. In a recent address to the Central Irrigation Board, the Viceroy said: "The return on the vast capital investment of 154 crores is not to be measured in terms of revenue, but in the more precious currency of human life and prosperity." What he said of irrigation applies with full force to hydro-electricity as well, and such a postponement of a forward policy in hydro-electricity would be doubly regrettable as so much revenue to Government would be unutilised and so much basic encouragement to industries, great and small, would be denied We have not even a thoroughgoing all-British India irrigation and hydro-electric survey: the major portion of our knowledge of Indian economic potentialities is from the huge blanks on our maps. The hydro-electric potential of India is estimated at 27 million H.P. but the developed power is only 0.8 million H P. or about 3 per cent.

Co-operative Education and Publicity

There are the other usual suggestions, namely, supply societies, producers' societies, collective farming, rural consumers' stores and sale societies—not to speak of multi-purpose societies. But for all these types of societies to start and work on sound lines, the basic need is an adequate level of co-operative education and propaganda. In 1939-40 the cost per elementary pupil in Britain was £16-17-1 There are at least three million persons of the school-going age in these Dominions, and even assuming a uniform scale of expenditure on all grades and varieties of education (taking the elementary standard as the norm), the annual expenditure in Hyderabad on the British scale on education alone should amount to approximately Rs. 125 crores per annum, ten times the Government revenues at present. On the scale of expenditure foreshadowed in the Sargent Scheme for British India, the Hyderabad Government should spend over Rs. 12 crores per annum on education alone. Does not the co-operative education of adults *to-day* deserve fifty lakhs per annum? At present the Co-operative Departmental budget is about five lakhs. An additional expenditure of forty-five lakhs per annum on co-operative education and publicity should be in proper proportions in any scheme of sound economic planning· the arm-chair attitude and policy and the unparalleled persistence of an unrivalled complacent psychology must be given up once and for all.

The Co-operative Movement

The late Hon'ble Sri. V. Ramdas Pantulu said recently:

> I always felt that the Co-operative Societys' Acts in force in British India and in Indian States were framed with the Registrar as the centre of the picture and not the society.

The following table exhibits the tardy progress of figures (which do not closely reflect facts) relating to the Co-operative Movement in India:

	Number of Societies (in thousands)	Number of members (in lakhs)	Working capital (in Rs crores)
Average for 5 years—			
From 1910–11 to 1914–15 ..	12	5·5	5·48
From 1915–16 to 1919–20 ..	28	11·3	15·18
From 1920–21 to 1924–25 ..	58	21·5	36·36
From 1925–26 to 1929–30 ..	94	36·9	74·89
From 1930–31 to 1934–35 ..	1,06	43·2	94·61
During 1937-38 ..	1,11	48·5	103·02
During 1938–39 ..	1,22	53·7	106·47
During 1939–40 ..	1,37	60·8	107·10

The recommendations and suggestions made by the Reserve Bank of India with regard to the rehabilitation of the Co-operative Movement and linking it with the Reserve Bank, are summarised below. They apply with even greater force to conditions in Hyderabad—although some of the suggestions are rather too rigid for practical enforcement in co-operative institutions—as well in Hyderabad as in British India.

(1) It appears desirable that provincial and central co-operative banks should advance loans upto about 50 to 55 per cent. of their deposits and invest the remaining assets in cash and gilt-edged securities.

(2) Cash and balances with banks may form about 10 per cent. of the deposits.

(3) At least 30 to 40 per cent. of the deposits should be invested in Government securities.

(4) We suggest that the provincial co-operative bank in each province should buy and sell Government securities on behalf of mofussil central banks and keep them in their custody earmarked for the account of the central banks concerned. The central banks should be required to hold at least 25 per cent. of their fixed deposits, 30 per cent. of their savings account and 35 per cent. of their current accounts in the form of Government securities and for this purpose to transfer an equivalent amount to the provincial bank which will buy Government securities for them.

(5) The co-operative banks should attempt as a general principle to avoid long-term business and where loans for periods longer than nine months are found necessary, care should be taken to ensure that the total amount of such loans does not exceed the paid-up capital and reserves.

(6) To avoid the possibility of fictitious repayments in future, it is necessary that the practice of making recoveries in a lump-sum at one time and advancing the whole amount soon afterwards should be stopped.

(7) Generally speaking, the bad and doubtful debts under present conditions should be expected to form at least 75 per cent. of the debts due from societies under liquidation, 50 per cent. of debts due from D class societies and 25 per cent. from C class. Each bank should create a full reserve against bad debts and a 50 per cent. reserve against doubtful debts.

(8) Deposit liabilities of co-operative banks as suggested by the Maclagan Committee should not ordinarily exceed 8 times the paid-up share capital and reserve.

(9) We suggest that the interest recoverable from D class societies and on bad and doubtful debts, even if it is not overdue, should not be taken to the profit and loss account.

(10) All co-operative societies should carry at least one-third of their net profits annually to the reserve fund until it equals the paid-up capital and thereafter at least one-fourth of the net profits.

(11) The spread between the borrowing and the lending rates of co-operative banks should be sufficiently wide to speed the building up of reserves on the lines indicated above.

(12) Investments in first mortgages of immovable property are not usually desirable for co-operative banks.

(13) The Reserve Bank will have to take into account whether a part of the net profits has been transferred to the reserve fund before such dividends are declared and whether the dividends are declared out of profits actually realised.

(14) A co-operative bank should not as a rule accept deposits for periods longer than a year or two at the most

(15) It is essential that the central co-operative banks should employ an efficient and well-paid staff trained in the theory and practice of banking.

The rural co-operative movement has been languishing here as well as in British India—with little recovery of overdue arrears and less of productive loans given afresh. The Dominion Bank is somewhat in a position similar to that of the Reserve Bank of India—quite good financially, but reluctant to go as far as possible in order to strengthen and expand the movement. Once the Dominion Bank is suitably linked up to the State Bank, with a definite plan and technical control, agricultural co-operative societies could be expected to prove much more useful than at present.

All indigenous money-lenders, whether working singly or as partners, should be roped in for the purpose of institutionalising agricultural credit on sound principles. A good beginning has been made by the Registration of Money-lenders Act, but the Hyderabad State Bank should prove a highly useful institution for spreading the arms of law into this huge fold of financiers.

"Co-operative" Achievements

In agricultural banking, the co-operative movement has made but little progress during the past thirty years: The working capital of the agricultural societies is not even one rupee per acre of cultivated land, and short-term advances do not come up even to one per cent. of needs. While the room for expansion of rural co-operative credit is very wide, the main part of the solution lies in retaining the indigenous money-lender as the chief financier, but bringing him under sufficient control and linking him up to the general financial structure. Still, as in India in general, so in Hyderabad, the "Co-operative" movement is probably the main channel through which the population as a whole could surmount difficulties and obstacles and enable them to attain that minimum standard of life which would permit them to educate their tastes for the appreciation of their environment and its Creator.

The available figures with regard to the occupations of the people and other details are of the 1931 Census Report and, therefore, figures used here are from that Report: in co-operative matters

figures are from the Annual Report for 1348-49 F. (1939-40), this being the latest available.

There are 21,697 villages in these Dominions and 3,188 agricultural co-operative societies. Several villages have more than one society and, therefore, it can be said that after twenty-five years of Government effort, we have one agricultural society in one village out of every seven on the average. Six-sevenths of the villages have not yet been touched. The position appears worse when we remember that it is not as though every society village is surrounded by the six non-society villages: the present societies are the products of disjointed efforts spread over a long period and there are thousands of villagers to-day in this State who have not heard of the Movement nor ever seen a society at any time.

Occupied houses in villages number 2,916,740 and if we divide this number by the number of villages, we get an average of 134 rural families per village at one family for one house. Agricultural earners number 2,743,453 and dividing this by the number of villages, we get an average of 126 agricultural earners per village. If we exclude mere land rentiers, the average per village descends to 112. Membership of the 3,188 agricultural societies is 70,514 and thus the average membership of every agricultural society works at 23. Therefore, on the average, in one village out of every seven, one out of every six agricultural families or one out of every six agricultural earners and one out of every five cultivating agriculturists is a member. In other words, one out of every 42 agricultural families or one out of every 42 agricultural earners and one out of every 35 cultivating earners finds a place in co-operative books. Three per cent. of the agricultural population has been brought into the fold after 25 years of Government effort and the expenditure about a crore of money Really speaking, the percentage is even less as at least 25 per cent. are "dead" members—being either debt-free or owing impossible debts to their respective societies.

Tenant cultivators number 377,377 (that is. having no land of their own, and cultivating occupants tilling others' lands on tenancy being excluded) and agricultural labourers number 942,348 making a total of 1,319,725: This number of over one and a quarter million lives on the plough but works on others' lands having none of their own, and this number does not include the large numbers of cowherds, shepherds, fishermen, etc., in these Dominions. Cultivating owners number 781,649, that is, slightly more than three quarters of a million, and non-cultivating rentiers 311,697 Let us remember that according to the present (and past) ideals of the Movement as set before us in Hyderabad, only one out of every three of earners deriving their livelihood from agricultural produce after working on

the land, is admissible, and 66 per cent. of the earning agricultural population finds the door closed. So, it cannot be denied that as at present understood in Hyderabad, "Co-operation" is not for all agriculturists but for landed agriculturists only. A fundamental principle of co-operation as understood in the world at large is "open door"; no man can be refused entrance, but 66 per cent. of the agricultural population we have kept out *legally*, and even with 25 years' experience have not evolved, not even thought of evolving, types of societies suitable for this big dumb majority.

Even of this 3 per cent. of rural population within the Movement, what is the financial condition? They owe Rs. 84 lakhs to their societies (58 lakhs principal and 26 lakhs interest). Land Revenue collections in 1348 were Rs. 295 lakhs (in round numbers) and according to the 1931 census, cultivating and non-cultivating occupants total 1,100,346. If we divide the total land revenue realised by the total number of landholders, we get an average of Rs. 27 per occupant per annum At this average rate 70,514 members would pay Rs. 19 lakhs as land revenue. But, we must remember that Hyderabad abounds in big landholders who have no place in the Co-operative Movement at any rate in the rural agricultural societies, and the bulk, by far a very high majority of the members, pay small sums as land revenue. Therefore, the average land revenue incidence on these members may be reasonably put at half the general average, *viz.*, Rs. 14 *per capita*. That is, total land revenue incidence may be put at about Rs. 10 lakhs and if we divide the total indebtedness of the 70,514 members to their societies, namely, Rs. 84 lakhs by the total land revenue incidence arrived at on an average basis (excluding big landholders), we get at the fact that on the average, members owe their societies about eight times their annual land revenue dues *And this, apart from the sums they owe the sowcars.*

The vicious circle we are moving in is further apparent from the fresh financial aid given to these societies. Time and again we are being told that the new orientation comprises the issue of crop loans to members so that their agriculture might prosper and so that they might stop going to the sowcar. In 1348-49 Rs. 7.5 lakhs were advanced to members Dividing this by the total number of members we get an average advance of Rs. 10.6 per head. An average land revenue incidence of Rs. 14 and a crop loan of Rs. 10.6—how far this proportion could inspire faith in the Movement and how far it could dissuade the members from going to the sowcars can be better imagined than said.

Let us look at the collections Rs. 13.6 lakhs were collected from members during the year Average payment by members works at Rs. 19 per head. How far a raiyat paying Rs. 14 land revenue

can, after meeting cultivation expenses (financed from elsewhere than the society), land revenue and the subsistence of his family, pay Rs. 19 towards redemption of debt, cannot admit of difference of opinion, and if the member paid Rs. 19 he did it clearly after borrowing from the sowcar.

To summarise, 66 per cent. of the agricultural earners are to-day legally barred from entering the Movement as it is being run, and about 3 per cent. at the most are on the societies' books; but, really, there is very little life in these handful societies and much less understanding and enthusiasm among the members as a result of collections far beyond the capacity to pay, and fresh loans which could not even amount to apologies.

Argument in these paragraphs has been based on calculations of averages, and it might be objected that averages are unrealities. This is true, but the only practical way in which a bird's-eye-view can be taken and a general conception arrived at is through averages: otherwise, we are sure to be drowned in details and obsessed with "practical" difficulties—even as the Department seems to be to-day. Let us say, that 3 per cent. of the work, done in 25 years is certainly good, being pioneering spadework. But let us not say that we have done the "best under the circumstances", that "the people are uneducated and improvident" or "look at Behar and Bombay—they have not done much better than ourselves" or "orthodox opinion does not allow us to go further" or that "Co-operation is not a magic wand that will do the bidding unconditionally", but let us on the other hand remember that the census figures are our barometer by which to gauge our success and let us see and admire the wonderful work that the Co-operative Movement has done in Russia and Denmark, and nearer home, in the Punjab and Travancore. Let us after dispassionate discussion accept a reasonable ideal and work for it heart and soul: it does not matter if we reach at least halfway in comparison to our programme.

What should be our programme? In five years' time, at least a tenth of our agricultural population must be brought into the Movement, and everything should be adjusted for realising this ideal within this period. Ten per cent. of our agriculturist earners would be 274,345, but in round figures, let us put it at 300,000, that is, about four times the present membership. What is intended is not mere entry of these names in the member registers or the cash books of societies, but first and foremost we must educate them and instil into them the precedents and methods of the Movement, and let us not say in confusion that literacy and education are synonymous terms. And let us also remember that we have got first to serve the rural masses in ways convenient to them and not delay by humming the orthodox hymns on "unlimited liability" and "credit".

LONG-TERM AGRICULTURAL FINANCE

Quite unscientific as the estimates of prior debt on agricultural land in India are, a tentative financial scheme for agricultural long-term finance should be somewhat as follows:

	In crores of B.G. Rs.
Total debt directly or indirectly secured by agricultural land in the whole of India (including Indian States)	1,750
Big cases which should be left to themselves—say, over Rs. 15,000 debt in each case ..	450
Good cases requiring no extraneous aid—out of the Rs. 1,300 crores (leaving out big cases) ..	300
Out of the balance of Rs. 1,000 crores, hopeless cases which must be sold out may amount to ..	250
The remaining Rs. 750 crores could be easily scaled down to	400
Add—for crop financing in the cases rationalised ..	100
Add further—for other long-term purposes constituting land improvement, introduction of power, machinery, artificial manures, etc. ..	500
TOTAL BILL ..	1,000

A scheme proposing to cover one-tenth of this figure in the course of ten years should prove quite successful in solving the problem of agricultural finance in India. That is to say, if land mortgage loans could be rationalised at B.G Rs 10 crores a year for ten years, the remaining cases still with money-lenders should automatically become rationalised in view of the model set (compare the fact that one of the greatest uses of the co-operative credit movement in India has been the reduction of the general rate of interest in villages *outside* the society). Further, the Rs 50 crores paid out to the money-lenders must again enter the field of investment either in the shape of new money-lending business by the money-lenders themselves or through co-operative institutions in which the funds should find place as deposits. Or, the money might go to finance new industries. In any case, Rs. 10 crores a year for ten years should be quite wide enough provision for facing the long-term finance problem. These figures look quite small by the side of war loans.

The figures given below show how not even a fringe of the Himalayan burden of prior debt on land has been rationalised by land mortgage banks in India The advantage we have here in Hyderabad is that we have still a clean slate and must be able to avoid pitfalls in view of experience elsewhere in India.

Operations of Primary Land-Mortgage Banks in India, 1939-40

Province or State	No. of Banks	No. of Members	Paid-up Share Capital	Reserve and Other Funds	Loans and Deposits held at the end of the year	Loans issued during the year	Loans Outstanding	Profits
			Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Madras	119	55,575	15,36,737	2,32,182	2,21,23,954	42,56,750	2,22,08,678	1,02,820
Bombay	17	9,089	2,99,576	12,848	25,88,533	5,90,442	27,01,500	3,877
C.P. and Berar	21	5,874	1,16,999	*	12,57,796	2,62,122	13,03,394	4,934
U.P.	5	701	28,996	6,406	1,54,257	49,842	1,86,374	*
Bengal	5	2,482	47,499	5,002	5,12,713	1,23,270	6,02,064	5,941
Assam	5	1,818	88,359	84,591	2,64,577	2,250	2,60,752	*
Baroda	2	2,126	1,51,175	23,800	5,38,000	1,29,050	5,89,491	20,230
Mysore	42	5,861	1,25,270	12,573	10,74,867	2,17,303	10,75,471	6,656

* Figures are not available.

Mr. S. M. Bharucha estimated the agricultural indebtedness of the Hyderabad State at 64½ crores of local money (roughly 55 crores of British Indian rupees) in 1937. Several discrepancies in the procedure and analysis in that connection are examined in Chapter XIII. Even taking that figure as approximately correct, we have not been told by him—

1. how much of the debt was actually secured by agricultural land:

2. what the value of the assets were against the liability:

3. what the earnings of the debtors were against the interest and principal payments due from them:

4. what fraction was good debt requiring no extraneous interference:

5. what portion of it was really hopeless and necessitated selling out the debtors' lands even for partial payment to the creditors:

6. of the balance, what proportion was really large-scale debt (say, Rs 15,000 and over) which might be reasonably expected to get accommodation on business lines among the usual financial avenues:

7. of the remainder, what percentage was seasonal debt, and how much funded and could be handled by cautious land mortgage banks, say on principles being followed by the Madras land mortgage banks, in regard to nature of land, water facilities, etc.; and

8 by how much debt satisfying condition No. 7 could be reduced by conciliation.

All this would require another full-blown economic investigation, and this alone could enable Government and the Bank to get an idea of (*a*) the scope for land mortgage banking in Hyderabad, and (*b*) the funds necessary to start with, and in the course of the next ten years. This requires time, but not very long. The Bank must get at scientifically arrived at data before launching on land mortgage banking

The present is a very opportune time for the starting of land mortgage banks in Hyderabad. There was a time when we said: "The assets are worth little. How shall we finance the rationalisation of long-term agricultural debt?" If we say now that with soaring agricultural prices the peasant should be able to look after himself, we are ignoring the fact that only a small part of the benefit is actually reaching the primary grower, and his higher credit-worthiness has changed the situation a great deal for the better: in fact, to start a scheme with about five crores advances spread over three to four years, should serve the important purpose of reducing the present inflatory condition.

An opinion is fast becoming current that the recent spurt in agricultural prices has quite removed the need for any special organisation

for rationalising long-term debt on land. The reality is that under the present conditions, the average cultivating raiyat does not feel like subjecting himself to all the laborious processes usually involved in co-operative finance in rural areas. It should be suggestive to remember that in previous years, even a lakh of rupees sanctioned by Government for distribution as loans for well-sinking through the Co-operative Department, lapsed to Government, the ostensible explanation having been that good cases were not forthcoming. In fact, one lakh should not be sufficient even for a part of a *taluqa*, provided the borrower is made to see the benefit of the proposed loan. Similarly, it would be rather a superficial complacency to evade the problem by saying that the need for a special agency in this matter had disappeared altogether on account of higher agricultural prices.

Mr. S. M. Bharucha's estimate of the debt burden on agricultural land was about 65 crores, and although he mentioned that certain small debts were omitted from his calculations, it is not clear if he excluded from these figures all short-term dues It would be perhaps reasonable to presume that this weight of 65 crores represented long-term or funded debt only of the peasants Any way, if we do not allow an increase on this amount for the intervening period of six years, 65 crores should be, a modest figure to proceed upon. Allowing 15 crores to be good cases which need no special relief, 10 crores owed by big parties (which again need not be included in the relief scheme), another ten crores for hopeless cases in which selling out should be the best solution, we arrive at a net thirty crores—about a year's working expenses on agriculture in these Dominions. Scaling down has proved successful all round, and we may knock off another 15 crores against this. Thus, we arrive at the *net* requirements for rationalising the long-term debt burden of the peasant, namely, fifteen crores. Planning a ten-year period for handling this burden, we must *start* with at least five crores to be loaned out on land mortgage during the next three to four years. Anything less than this should be analogous to the boy who wants a motor bicycle against a ten rupee note and chocolate for the balance of small change. It may be pointed out that in these figures, no long-term financing is contemplated for positive agricultural improvement work as such The Land Mortgage Bank Act proposes that the Central Land Mortgage Bank in these Dominions should be an adjunct of the Hyderabad State Bank. This is as it should be.

It is now about two years we have had the legislation on land mortgage banking, and it is high time that this problem should be taken up at once by a special officer appointed for the purpose by Government.

RAINFALL AND LIVESTOCK INSURANCE

Another field which sorely needs urgent relief is rainfall and livestock insurance. The Co-operative Movement has achieved considerable success in other lands in this line, and if only the problem is handled from the beginning scientifically and if the Famine Reserve maintained by Government, is administered through a Central Co-operative Organisation for Rainfall and Livestock Insurance, we are bound to achieve great success.

It is of particular interest to notice that in Spain, at the time of the initiation of the movement, the main object was to organize and regulate and rationalize State aid to agriculture, and in the Ukraine, the object in starting insurance in agriculture was to remove the causes for different kinds of damages, so that the need for insurance might not arise at a later stage. The Royal Decree (Spain) of 9th September 1919 said:

> The organisation we are examining is nothing more than a system by which the transition can be made to the compulsory insurance which the Government has already begun to study Its principal object is to regulate effectively the State's large contribution to the repair of losses, a contribution which, if less burdensome than it might be to the public treasury is also insufficient, being spread over a considerable number of losses. The State assistance is sporadic and irregular and is exposed to all the inconveniences attendant on clumsy distribution It was, therefore, a matter of urgency to utilise more scientifically both the resources supplied by the public treasury and the existing directive, co-ordinating and stimulative forces, and hence arose the necessity for intensifying the insurance by means of this transitional system which is a step towards compulsory insurance.

In the Ukraine the insurance organizations regarded their functions as "temporary and transitory". They considered that:

> Co-operative insurance and in connection with it, indemnification for damages, is of importance for the Socialist State only during the period of transition from the individualist to the collective system of economy. The main interest of the State is, therefore, directed towards actual measures which might prevent the very damages necessitating insurance and indemnification. Co-operative insurance bodies, therefore, from outset paid attention to this side of the matter.

Thus, in the earlier stages, they devoted attention to building schemes, supply of fireproof material, etc. Both these ideas are of great suggestive value to us in Hyderabad. Our annual remissions are considerable on account of failure of rains and insurance societies, if and when well organized, must be able to canalise State relief as efficient distributaries. We have a far-reaching "Rural Development Trust" which, in course of fruition, must reduce the intensity of risks in agriculture.

To begin with, insurance against failure of the rains, and mortality of livestock, should be more than sufficient to engage the attention of the authorities. Other items might be considered at a later stage on the basis of experience gained in these two vast fields. The occurrence of hail closely resembles the failure of rain. "It depends so much on the vagaries of nature. Climatic conditions cannot yet be foreseen with great exactitude, and the ratio of losses to premiums shows very great fluctuations." This ratio worked at 30 per cent. in France in 1898, and at 126 in 1908 In spite of this, hail insurance prevails widely in France, the Ukraine and the U.S.A. Introduction of compulsion is being considered in these countries as a means to reduce the cost of working. There is nothing to show that insurance against failure of rain was seriously thought of in the past in India, but that need not be the reason for postponing a study or making a beginning Sometime or other, a beginning has to be made. Failure of rain does not seem to have been insured against, in any other country, and the reason was probably that there was no great necessity for it. In India, practically all rainfall is confined to a few months of the year, and failure of rain could be said, on the basis of observation, to be a cyclical phenomenon in practically every region; the saving grace is that different regions suffer in different years. As in the case of hail, a fundamental condition for success would be that the area of operation should be large; for, failure of rains might at once dominate entire districts. Sir John Strachey called the Indian budget "a gamble in rain", but really, one budget for the whole of British India in those days did prove a material insurance against monsoon failure. Failure in some areas could be made up for, on account of better crops elsewhere Actuarial calculations would be difficult in the beginning, but empirical beginnings must be made.

Life insurance presupposes adequate income: but rain and livestock insurance adds to the income, and between the two, the latter is much more urgent in India Secondly, the working of insurance organizations against failure of rain and mortality of livestock, would prove of great value in serving as sources of scientifically and systematically collected data with regard to local rainfall and incidence of mortality among cattle The Agricultural Tribunal of Britain said: "Co-operative insurance systems abroad have resulted in much information being systematically obtained, of the incidence of disease, and on this account alone it would be fitting that the State should endeavour through the Agricultural Department to advance the system of co-operative insurance." Thirdly. as already mentioned, these organizations would serve a very useful purpose as channels for Government aid of different kinds. Fourthly, the poverty of milk and

milk products, specially in South India (including Hyderabad), is well known and livestock insurance organizations must be able to help, as they have done in the U S.A to render milk supply disease-free and adequate. Insurance against failure of rain and mortality of livestock should kindle in the Indian raiyat a new hope and a new self-reliance which he cannot conceive at present.

Agricultural insurance has thrived under three systems: Commercial, Mutual (or Co-operative) and State monopoly. Traditions and conditions in India necessitate agricultural insurance to be taken up by the State as a monopoly: the other two alternative systems do not present chances of success in a reasonable time. If in countries like Great Britain and the U.S.A. different kinds of urban insurance have been taken up by the State, it is only fair and appropriate that the State should take up rural insurance in this country for social, economic and financial reasons.

* It would be out of place to burden the reader with figures, and only general suggestions are made on the basis of experience, as recorded, of several countries. The following would be the safeguards for ensuring the success of rain and livestock insurance in Hyderabad.

1. No benefit to be paid till a minimum number and value of policies have been taken up: in case of earlier claims, actual premiums paid in, to be paid back with interest at 5 per cent.

2. Not more than 80 per cent. of the insured crop or animal to be paid on claim: this would discourage the policyholder from idleness, indifference, etc.

3. Claims to become payable only on satisfaction that the advice of the local union or of the technical expert was duly carried out.

4. Compulsory inoculation against epidemic and contagious diseases: this would confine operations in the beginning to areas nearby veterinary dispensaries.

5. Small rebates on premiums in successive years on previous "no claim" years.

6. No benefit in case of earthquake, war, fire and voluntary destruction.

7. The wider the area of operations, the greater the scope for the reduction of risk.

8. Reinsurance arrangement by a central organization, preferably State. On this, the Ashly Tribunal said:

> It is necessary that there should be provision for re-insurance, and a central organization which can help to bear the incidence of severe epidemic losses in any particular community.

* For figures see the Note at the end of this chapter.

9 The insurance facility should be confined, in the first instance, to *bonafide* cultivators, and policies should range from Rs. 100 to Rs. 1,000. The maximum policy could be raised gradually in view of growing strength

10. The management of small tanks might be transferred to local primary, rain and cattle insurance corporations (along with the usual facilities and funds) on such corporations satisfying tests of efficiency. This would go a great way in husbanding the waters of the area for the benefit of the wet lands.

11 Of course in the beginning, operations would have to be confined to areas with comparatively less risk—where the average rainfall is higher, where water reservoir arrangements are more efficient, where alternative sources of water supply could be got at, such as river water, well water, etc. The Madras Central Land Mortgage Bank, Ltd., confined its operations for the first ten years only to wet lands as the chances of failure of crops in these areas were far less than those in the case of dry lands

State help in agricultural insurance may be along the following channels in the light of knowledge of the different countries of the world:

(1) *Education and Propaganda.*—The following extract with regard to Italian policy and programme is interesting:—

With the object of encouraging the establishment of insurance societies or federations, the competent Ministry has authority to send representatives to consider the local conditions for agricultural insurance and the risks involved and to encourage local initiative, and to invite the parties concerned or the promoters, to take part, at the expense of the Ministry, in lectures or in other re-unions. In addition, the Ministry may cause propaganda publications to be prepared, in which special attention is given to the organization of agricultural insurance on the administrative and technical sides according to the varying conditions of local agriculture and the special character of the risks involved. The Ministry may also supply the societies and the federations with the account books, registers and other printed matter required for the purposes of their administrative functions, either in the early stages of their work or at a later date It is, however, even of greater importance that the competent Ministry also received authority under the Regulations of 1920 to grant subsidies to the federations which, for reasons other than maladministration, have lost a part of their owned capital in such manner as to jeopardise the existence of their organization, or have closed the last financial year or years with a loss or have exhausted their surplus funds by abnormal withdrawals from the Reserve Fund. The loss must be due to exceptional circumstances and not to faulty management or to disbursements not sanctioned by the law and by the rules, nor attributable to material defects in the technical and financial organization of the society. In addition subsidies may be allowed to federations which

have expanded or have the intention to expand their field of operation by taking over other branches of insurance, included among those allowed by the law, or to federations during the early days of active working.

(2) *Foundation Grants and Undue Losses.*—Usual conditions attached (as indicated above) are that there should be a minimum membership when starting, and efficiency tests must be satisfied before grants are made against undue losses on account of heavy benefits having been paid out. This is in vogue in France.

(3) *Purchase of Shares.*—This would be necessary in case the central organization is a private one—as in Hungary.

(4) *Compulsory Insurance of Government Agricultural Property.*—This would give decent business to start with as Governments generally own farms and livestock In addition, this would serve as a lead to the public.

(5) *Free Technical Advice.*—This, together with education and propaganda, would presuppose an adequate and equipped staff. In fact, this would be the right end to begin with.

(6) *Fiscal Facilities*—For ten years, insurance organizations in agriculture (rain and livestock) might be exempted from customs duties, the idea being to reduce the costs of the members and thus raise the prospects of success.

(7) *A State Re-Insurance Fund.*—This would have to be administered by a committee and the justification for this would be greater than for the Industrial Trust Fund. Once this organization is started, all remissions of a seasonal character and all permanent reductions in assessment, must be made to reach the ryots through the central organization in the shape of insurance benefit which in effect would be guaranteed by it.

The steps suggested towards the inauguration of this organization in Hyderabad are:—

1. A suitable person should be deputed to Australia, Canada and the U.S.A. to make a study of primary and secondary as well as central agricultural insurance organizations and understand the underlying principles of working.

2. On his return, a Central Rain and Livestock Co-operative Insurance Society should be started. Raiffeisen wrote to Jagar in 1873 thus:

> Experience teaches us that it is advisable to start the building of a credit system with the establishment of central institutions. They serve as a trunk on which the association will grow.

What is said of credit, applies with greater force to insurance in Indian agriculture.

3. Till a minimum level of business is secured, this Society should do business with individual members, in the meanwhile carrying on a defined programme of education and propaganda throughout the State and organizing District and Taluqa Societies to take over local business and affiliate themselves to the Central Society. Later, the central organization might confine its work to education, propaganda and re-insurance.

4. A Rain and Livestock Insurance Fund should be established by the State with a corpus of Rs. one crore, interest only being utilisable by the central society for objects sanctioned by Government.

5. All benefits on account of permanent reductions in land revenue or seasonal remissions in land revenue demands, should be gradually made over to the Central Society, thus encouraging raiyats to look to this Organisation for relief on the basis of insurance of risk.

6. At a later stage, when the accumulated reserves of the Central Society become substantial, the question of long-term credit for members might be considered, out of such reserves. The successes attained in the U.S.S.R., in the Public Branch of the Mysore State Insurance Department, and nearer home, by the Hyderabad State Insurance Department, are worth consideration.

Decentralised Agricultural Stations

In any scheme of progress, the chief impeding factor in India has been the area of the country, the difficulty of reaching the tracts where relief was needed most. Roads and railways are few: so much so, that there has been growing to ominous dimensions the grave difference between the road-side and the interior village—even as the threatening difference between the average man and the average woman in India in education and outlook (on account of an educational system which has been studiously neglecting the education of women). Some time ago, an order was passed by the authorities that development should be planned only alongside roads and in a chain—so that it might be possible for the higher authorities to inspect and to assess progress. The villager in the heart of the country is hard hit because everything is far away from him—the court of law, the police station, the hospital, the school, the co-operative society, the market—even relatives. In most cases it is not the territorial distance that counts, but the difficulty of communication and transport on account of the nature of the country and inclement weather conditions. Another fundamental truth is that although the villager is not literate, he is quite intelligent and can understand his interests: he has been mostly conservative *because* he knew that what was proposed was really prejudicial to his interests apart from the intentions of the preachers. Provided a system is launched under which the average

villager could reach help and relief effectively, the countryside is bound to be metamorphosed in ten years' time

Thus, for attaining national results in a fairly reasonable time, the very first pre-requisite is the establishment of say, some six hundred decentralised agricultural stations at one for about 50,000 acres, covering the entire 30 million acres we have under the plough in these Dominions. With the present occupant of land undisturbed in his rights, such a station established under the auspices of the Government for an area ranging between 15 and 20 villages (differing in number of villages according to local conditions) should radically change the attitude of the villager and the results of effort. Such stations should modernise not only agricultural processes but also local irrigation, anti-soil erosion, fertilisers, short-term and long-term finance, grading, warehousing, marketing, etc. The several sectional central organisations would have to work through the decentralised local station in every respect. The problem of communications and transport should automatically disappear, for, such local stations must imply good means of communication with the general transport system of the country. Mostly these stations would require indigenous material for improving the villages (including housing schemes), and with the station a few hours away from the land, land values should rise enormously—apart from the war boom. Agricultural output should increase by leaps and bounds both qualitatively and quantitatively, agricultural insurance would carry much less risk, statistics would become accurate and enlightening. The only big item which Government would have to look to independently of these stations would be large irrigation and hydro-electric works.

There are three alternative ways of arranging for such stations—on a private commercial basis, on a co-operative basis and on a Government monopoly basis. Circumstances at present warrant that we must resort to the last method. A review of the situation might help us further five or ten years after the start. At five lakhs per station on the average (apart from housing finance) the total capital outlay would be about Rs. 30 crores,* leaving a balance of about Rs. 40 crores for big irrigation works. At a later stage, the possibilities of collective farming might be explored, as some experience of the advantages of agriculture as a business must powerfully widen the outlook of the average agriculturist. Under this arrangement, central offices would become practically advisory, and each local station would become the hub of rural life and industry. It might be added that the necessity for experimentation is no longer there. Any true *national* plan must find a place for these local stations by

* As explained in the next page, the financing of several rural industries would come within the purview of these stations.

whatever name they might be called. All charges by the station to be made in kind and collected at harvest time (as in the Russian stations) should ensure every cultivator going to the station for short and long-term aid on business lines. And this would enable the Government to possess at any time an amount of stock of various agricultural products as to ensure not only stability of prices but also adequate supplies to urban areas. For foodgrain, the field for expansion might be limited from the view-point of the home market, but the scope for increased production of vegetables, fruit, milk and milk products, is practically unlimited.

The following would be among the important items to be made available at the door of the villager, on modern lines, by the station:

Mechanical Work.—Lowering the level of land for reaching water, embankments for minimising soil erosion, irrigation works like wells, small tanks, ploughing, manuring, adding fresh earth, watering, sowing, weeding, transplanting, harvesting, transporting, grading, storing and marketing.

Economic Organisation Work.—Consolidation of holdings, collective farming, short and long-term finance, insurance, dairy farming, poultry farming, silk-worm rearing, sheep farming, subsidiary industries, etc.

As explained above, the necessary condition would be for each station to give timely spot service and then to collect the bill in kind at the harvest time at normal prices fixed for such services.

Social Investment and the Risk Factor

The subject deserves emphasis from another angle of vision. There are some of our financial experts who observe: "What about the risk in all this? Who will be responsible? Should we not take example from past mistakes? Have we not advanced Rs. 15 lakhs in order to rehabilitate the Co-operative Movement in the State, only recently?" Well, an economist's reflections on these despondent thoughts are: "Government did very well in making the advance of Rs. 15 lakhs for the benefit of the Movement. They know and we know that if and when necessary, they must be prepared to write off that debt. In a sister State, some money was advanced as well-sinking loans for some years. The Financial Secretary drew attention of the head of the administration to the fact that payment of interest and repayment of principle instalments against these loans were far from satisfactory during the previous several years, and recommended that such loans should be discontinued. The head of the administration smiled and coolly observed that the advances were really of public money for the benefit of a depressed section thereof,

and if recoveries were not as expected, Government must give due weight to the fact that such advances do improve the economic condition of the borrowers (peasants) which, in turn, is bound to help Government in hundreds of ways. So, all such transactions should be viewed as social investment not necessarily meant for recovery by Government in the shape of interest and principal. The economist would only add that if we as a State have spent several crores on 'winning the freedom of the world', still being in doubt as to how far that ideal will be realised in the post-war world, still being in doubt as to how far we ourselves would be beneficiaries from that 'freedom', does it not stand to reason that we should take much more risk in sinking our resources on national productivity within the four corners of the Dominions?"

Full Employment: Government and the Public

National prestige and not that of Government only, the national dividend and not that which could be distributed among shareholders, and national boundaries (not those of the armchair)—these issues deserve first attention to-day in Hyderabad at the hands of the financier—Government and private, the Hyderabad State Bank and the Development Departments With a responsive and responsible public opinion, these agencies should be able to achieve splendid success in these matters within a short span of time. But the Bank should be the fork-handle if the conservation, co-ordination and distribution of resources should go on methodically and economically.

NOTE

INDIA

Operations of Cattle Insurance Societies During 1934-35

No. of Societies—240 in Bombay and 239 in Burma, 80 actually working in Burma.
No. of Members—3,546.
Amount of risk insured during the year—Rs. 12,650.
Premia collected—Rs. 534.
Supplementary contributions collected—Nil.
No of animals insured—268.
No. of animals dead—17.
Claims paid—Rs. 614
Cost of management—Rs. 483.
Funds in hand at the end of the year—Rs. 18,254.
Amount of risk re-insured—Rs. 3,085.
Amount of premia paid for re-insurance—Rs 104.

In the Punjab and in Coorg, cattle insurance societies did work before, but evidently they must have closed down by 1934-35 as the Government of India publication for that year contains no figures about these areas.

Operations of Co-operative Central Re-Insurance Societies During 1934-35

Province—Burma.
No. of re-insurance societies—1.

No. of affiliated societies—12.
Proportion of risk of affiliated societies re-insured—Half.
Amount of risk re-insured—Rs. 5,350.
Premia collected—Rs 74.
No of animals covered by affiliated societies insured—181
No. of animals lost—6.
Claims paid to affiliated societies—Rs. 71.
Cost of management—Rs. 803.
Funds in hand at the end of the year: General—Rs. 2,174.
Funds in hand at the end of the year· Reserve Fund—Rs. 13,698.
Government subscriptions, loans, etc.—Nil

OPERATIONS OF CO-OPERATIVE INSURANCE SOCIETIES (AGRICULTURAL) DURING 1938-39 (EXCLUDING BURMA)

No. of societies (cattle insurance)—1.
No. of members—5.
Amount of risk insured—Nil.
Premia received—Nil.
Supplementary contributions collected—Nil.
No of animals insured—Nil.
No. of animals lost—Nil.
Claims paid—Nil.
Cost of management—Rs. 2.
Funds in hand at the end of the year—Rs. 232
Amount of risk re-insured—Nil
Amount of premia paid for re-insurance—Nil.

GREAT BRITAIN

The Agricultural and General Co-operative Insurance Society, Ltd., was started in 1908
Business done—Fire, Motor Car, Tractor, Livestock, Accidents and Life. (Membership in 1935—5,542).
Net premiums received, after making re-insurance premium payments—£13,375.
Claims in 1935—£63,946.
Dividends on shares—5 per cent. in 1935 15 per cent. bonus on Fire.
Paid-up share capital—£9096. Reserve Fund—£23,831.
The National Farmers' Union Mutual Insurance Society was founded in 1910. Operates over the whole of the United Kingdom.
Business done—Fire, Tractor, Livestock, etc.
In 1935 membership was 80,000, and the number of policies issued was 160,000.
On premiums, the 1935 Report declares that: "... had members continued to insure with tariff offices, instead of insuring through the National Farmers' Union Mutual Insurance Society, Ltd, they would have paid during the last seven years alone, £543,173 more in premiums than they have paid to their own Society".
In 1934, the saving amounted to 17 per cent. of the total premiums paid.
In addition, there are about 150 cow clubs and 300 pig clubs which do insurance work Of late they have declined in importance.
Slaughter insurance (against the risk of meat condemnation) is organised by butchers themselves.
Insurance against bees becoming infected with foul brood, is prevalent in England and Scotland. The maximum benefit derivable by a member is £7-10-0.

THE UNITED STATES OF AMERICA

The Farmers' Union Mutual Insurance Co. of Kansas does business in Fire, Lighting, Tornado, Hail and Accident
No of members in 1934 was 17,484. Insurance in force—74 1 million dollars. Of this, 20 2 million were subscribed for during 1933.
During 1934, 178,576 dollars were received as premiums, and 119,957 dollars were paid out on claims
Total resources of the Company—323,751 dollars.
Reserve Fund—256,025 dollars.

Windstorm insurance is specially popular in the State of Illinois. There are five district companies and a large number of county companies.
Hail insurance is carried out by joint-stock, mutual and State organisations. Of course, they are independent of one another
In 1930, the number of mutual companies was 37. Premiums collected by these in 1930—4.25 million dollars
1930 joint-stock companies numbered 115, premium collections totalled 10.2 million, and compensation payments 6.1 million

FRANCE

Agricultural insurance in France is done by limited companies, large mutual associations and small mutual associations. In 1933, there were 6 of the first class and 17 of the second class. In 1921, there were 10,212 cattle insurance societies and 78 re-insurance societies. Only 2,977 of the primary societies had re-insurance arrangements with the 78.

On January 1, 1929, there were 6,470 mutual insurance associations and 80 regional or departmental re-insurance societies. Membership—311 822. Value of stock insured—33 1 million francs. Contributions paid—33.1 million francs Losses sustained—33.4 million francs.

The National Office for Livestock Insurance had in 1934 affiliated to it, 51 re-insurance societies, 2,500 local societies, 67,000 members, 165,000 insured animals. Insured value—400 million francs

The oldest central organisation, "La Mutualite Agricole" does Fire, Accident, Hail and Livestock business. Fire comes next to Livestock Insurance in France

FRENCH AFRICA

In 1934, there were 37 regional insurance societies and the business done was very satisfactory as could be seen from the following figures:—

Value Insured

Insurance against Hail—642 1 million francs.
Insurance against Fire—2,349.9 million francs.
Insurance against Livestock—4.9 million francs.
Insurance against Accidents—1,116.8 million francs

THE U.S.S.R.

The Central Association of Flax-Growers began insuring flax in 1918. In October 1918, the All-Russia Co-operative Insurance Union was started. In 1922, agricultural insurance was revived as a State monopoly, doing Fire, Hail and Livestock Insurance But under the new economic policy, co-operative institutions were allowed to continue insurance work provided any large risks were re-insured with the Central State Organisation.

AUSTRALIA

The Co-operative Insurance Society of Australia was started in 1919. Business done—Fire, Accident, Motor Car. In 1934 net surplus was £22,240; and a dividend was declared at 7 per cent.

ITALY

In 1935, there were 4 large joint-stock companies and 990 mutual societies. Livestock insurance was the main business. The small mutuals had a membership of 35,000 In 1930, the National Federation of Agricultural Insurance had been formed, and all the 990 small mutuals were affiliated to it. In 1934, the National Fascist Federation of Mutual Livestock Insurance was registered, and it took over all centralising work.

In 1931, hail insurance organisations numbered 20 limited liability concerns and 7 mutuals with premia paid in amounting to 73 million lira. "The entire organisation of hail and other agricultural insurance was being revised with State supervision on a non-profit-making basis."

Rural fire insurance societies were 400 in number.

GERMANY

Frederick the Great started the movement in 1765. There are 13 large private associations and 9,000 small societies In 1935, the large associations insured 194,149 animals, and the smaller societies insured 2.455 million animals. Among the animals insured were horses, cattle, pigs and goats. In Germany, loss not followed by the death of the insured animal is also included in covered risk The policies issued by the small societies and in force amounted to 775 6 million RM. In 1935, seven large firms had insured 3.428 million animals and the policies in force amounted to 305 7 million RM. 16.6 million RM. were paid out against hail insurance claims during 1935 by seven big companies.

The German Farmers' Service General Insurance Society received 4 5 million RM. as premia during 1934, paid out 1 8 million RM. on claims during the year, cost of management amounted to nearly a million, 1.375 was the paid-up share capital, 0 8 million was the Reserve Fund, and total assets were 4 3 million RM Of this, 2 3 million were deposited in banks, and 0 861 million were invested in securities.

CHAPTER XXII

PRECAUTIONS

"A rare present from Sir Walter Raleigh to Queen Elizabeth, the decoction was thrown out and the boiled tea leaves were served to the court, eaten along with sugar with much difficulty but with great pride."

SEVERAL precautions must be taken with a view to safeguard the Bank against pitfalls. Among them are:—

(1) *Jagir* areas must be included within the jurisdiction of the Bank.

(2) The Bank must be empowered to *control* all money-lending of whatever type (individual and joint-stock), the extent of control depending on the nature of the work, the locality of incorporation and the size of the institution concerned.

(3) A bill market must be developed. The Hilton-Young Commission recommended that forms of bills of exchange must be made available in the local language in Post Offices and that the duty on usance bills should be abolished.

(4) Plans should be laid for long-range action. Stop-gaps will not help. In order to put the Bank in a position to shoulder its responsibilities properly, it is quite essential that it must have ample funds at its command. At the time the Imperial Bank of India and the Reserve Bank of India were inaugurated, they had respectively at their command Rs. 76 crores and Rs. 11 crores of non-Government deposits (now they have Rs. 111 crores and Rs. 42 crores of non-Government deposits respectively) while the prospects of non-Government deposits for the Hyderabad State Bank *in the near future* are not bright—specially in these days of war loans, etc. The cash balances of the Government have gone down from over Rs. 4 crores to less than one crore, and operations like management of public debt, collections and remittances are all very minor in Hyderabad. Thus, both with regard to *funds* and with regard to *income* the Hyderabad State Bank, as at present contemplated, starts on very narrow ground and needs rapid enlargement.

(5) The holiday psychology should be severely cut down. The Bank is a public utility concern—as much as a railway, a telegraph or a telephone service, and only very important holidays should be observed.

(6) The Board of Directors should be a brains trust. Moneylal Rupeemull is all right in calculating interest and minimising expenses, but he alone cannot manage some special interests like Co-operation, Industry, Land-Mortgage Banks, Exchange and General Theory of Money and Credit. Between Government nomination, election by shareholders and co-option, the selection of the necessary talent will have to be ensured.

(7) Education, propaganda, organisation and supervision of banking is a primary function of a central bank, and a sound foundation in this respect requires that from the beginning, all such work should be done by the Bank in *all the five* languages concurrently, in English and in the four local languages.

CHAPTER XXIII

POTENTIALITIES

"The Reserve Bank of India is far from being the Ganges. It is worse than the Thames."—V RAMDAS PANTULU.

MONEY and credit policy are the blood circulation of the economic life of the people.

In modern times currency and finance govern our destiny far more than the gods of old did when the world was young.—(League of Nations: *Monetary Review*, 1939-40, p. 34.)

In an insane and chaotic world a deliberate concerted monetary policy is one of the few sane methods left to the rulers of society to anticipate, check and alleviate the industrial maladies to which the world is periodically liable. ... It is impossible to entertain the suggestion that the monetary machine should be left to find its own manner of operation and take its own natural course. Such *laissez-faire* is unthinkable for a mechanism which is capable of both so much good and evil.—B. P. ADARKAR.

Stability of employment and production, adequate consumption and a satisfactory standard of life—all this largely depends on sound monetary and financial policy, and men like Wicksell and Keynes and Drs. Schacht and Funk have done much useful work in helping many a finance minister. The Hyderabad State Bank will have to prepare itself for participating in the post-war monetary and financial reconstruction of the world. But in order to be able to do this the State Bank will have to be entrusted with sufficient powers. The Bank, as it is being worked, is like the small Indian prince—with high-sounding titles and ponderous treaty rights, but vested with neither powers nor jurisdiction. Like the lady of a new house with no kitchen and with an empty store, the Bank has neither the discretion nor the ingredients for national finance. *There cannot be matrimony WITH RESERVATIONS, nor polygamy in banking and finance. There must be mutual trust and the Bank should be looked to by the State as the expert body for managing all central banking functions: the powers held by the Government as shareholder under the Act are quite sufficient to safeguard against any risk or danger.*

The Reserve Bank of India has not yet made headway in these respects:—

(1) the building up of a bill market;*

(2) making reserve ratios elastic;

* See Note at the end of this chapter.

(3) organising deposit insurance;
(4) apex finance—national savings certificates and industrial and agricultural finance;*
(5) gold policy—it is the only central bank of its kind in the world co-operating in gold exports, and recently in selling gold in India for Britain and the U.S.A. at prices giving about 75 per cent. profit to the foreign gold sellers. Referring to the sale of gold, Sir Ziauddin said that the Reserve Bank was acting as a "black market" for the sale of gold on behalf of the U.S.A. and U.K. in India. The world parity rate of gold was about Rs. 42 per ounce, while the Reserve Bank sold it for Rs. 71. He asserted that this was nothing but black market rates and he said that the House should openly censure the Directors of the Reserve Bank for allowing such sales;
(6) easy money policy (outside the narrow commercial sphere);
(7) debt repatriation policy;†

* Land-mortgage banks play an important part in the supply of rural finance by catering for the long-term requirements of the agriculturists. The Reserve Bank of India, for obvious reasons, is not authorised to make long-term loans and hence the financial assistance that it can grant to the land-mortgage banks is of a very restricted nature. However, those central land-mortgage banks which have been declared to be provincial co-operative banks under the Reserve Bank of India Act may obtain loans and advances for periods not exceeding ninety days against Government securities in case of emergency under Section 17 (4) (*a*) of the Act. The Reserve Bank can help the land-mortgage banks by buying their debentures or making loans against them provided they are guaranteed by Government both in respect of principal and interest and provided they are readily marketable. With this object, the Bank considers that it is in the interests of land-mortgage banks that they should interest genuine investors in their debentures.—(*Functions and Working of the Reserve Bank of India,* 1941, p. 74).

† *Indian Finance* (dated March 14, 1942) estimatel sterling accumulations in the first thirty months of the present war at £300 million. In 1942-43, a further amount of £287 million may be piled up. Thus, between September 1, 1939 and March 31, 1943, the Reserve Bank of India's gross accumulation of sterling will turn out to be £600 million approximately. Of this, about £250 million will have been used up for redeeming the entire block of sterling loans and for taking over two railway systems. Even after these colossal payments, the Reserve Bank will be showing an increase of £350 million in its sterling assets as at the end of 1942-43 over the pre-war level. Inclusive of the sterling balances at the beginning of the war, the total sterling assets will be nearly £400 million. Ignoring for the moment the risks involved in the British Indian rupee linking itself to sterling *after* the war in view of the changing direction of the external trade of this country, £150 million should be the maximum normal sterling holding necessary for backing the exchange stabilisation of this country, and even after providing for this, a dead stock of £250 million will remain over. Well, as yet there has not been even a suggestion that in tune with the Dominion policies of repatriating Indians back to their own country, we must also utilise this balance in repatriating British capital from this country. Considerable amounts of British capital are invested in many of our local bodies, port trusts and electric concerns, and the coal and tea industries in India have large British shares. A truly national policy demands that the purposeless balance of £250 million should be used up in enabling Indians to get proprietary rights over their own national industries.

(8) national scales of expenditure and routine;
(9) as educator and organiser of banking and economic research, and
(10) in post-war monetary and economic planning.

And mostly, the reason is the influence over the Reserve Bank of India of external interests. But here in Hyderabad, the strong traditions of autonomy, coupled with choice personnel, tact and contact, must enable the Hyderabad State Bank in God's good time to succeed even in those respects in which the Reserve Bank of India has not yet succeeded.

NOTE.—By the end of 1943-44-, the sterling balances in excess of pre-war level might mount to well over £600 million.

Sterling debt has been paid off, but the bigger issue of repatriating British capital invested in Indian industry, has even been discussed—although this should be convenient both to the Indian investor and the British Government. In the former case, it would have anti-inflationary effects. In the latter case, the British Government could borrow more from capital repayments to present British shareholders in Indian industry.

NOTE

In order to exercise adequate control over the credit and the banking system of the country, the Reserve Bank has been given the powers usually possessed by central banks. It can undertake open market operations under Sections 17 and 18 of the Act and vary from time to time the minimum rate at which it will discount eligible bills of exchange. The actual control is, however, limited as the scheduled banks are not, as a rule, large borrowers from the Reserve Bank. The Reserve Bank can exercise greater control when the banks approach it for financial assistance as they may in that case be prepared to subject themselves to voluntary inspection. Such occasions, however, have been rare and as the inauguration of the Reserve Bank has coincided with an era of cheap money conditions, loans and advances to and discounts for scheduled banks have never reached a high figure. Among other methods by which the Bank can to some extent control the monetary and the banking system may be mentioned appropriate changes in the amount of treasury bills offered, in the amount of sterling purchased and in the amount of money in circulation but these methods are comparatively less effective and of limited applicability. Thus, although the Reserve Bank has been entrusted with most of the powers generally given to a central bank, its actual control is limited by the peculiar character of the Indian monetary and banking system.—(*Functions and Working of the Reserve Bank of India*, 1941, pp. 49-50.)

CHAPTER XXIV

THE INTERNATIONAL MONETARY FUND SCHEME

THE shelving of the Keynes and the White Plans for international monetary co-operation was regretted by all well-wishers of the post-war world, and the new Scheme* has come none too soon: really, this is the offspring of further discussions and deliberations among the same experts, calculated to improve on the old models. The older schemes were imposing and envisaged a super-sovereign State so far as monetary arrangements were concerned. In Lord Keynes' words, the worst of headaches came to the experts on account of the varying degrees of success attained by different countries in the matter of stability of internal prices and efficiency wages. Disequilibrium was highly infectious and, therefore, the creditor country was to shoulder the responsibility for correcting the disequilibrium to a reasonable extent. The new scheme is less ambitious: Each country is free to mould its own policy with regard to economic progress, and as the Acting Finance Member, Government of India, Mr. C. E. Jones, put it, it has the merits of being simple, elastic and free. Section IV of the Atlantic Charter and the basic principle of Lease-Lend are duly respected in it. The facilitation of international trade after the war is the prime objective of the scheme, but each country is free to participate in such trade in such manner and to such extent as suits its own circumstances. Thus, loosening of restrictions all round is the main distinguishing feature of the scheme, and for this reason, is more practical.

The cutting out of relief, reconstruction, war balances and long-term capital transfers, makes the scheme still more practical. There are other institutions to deal with such problems; for example, the U.N.R.R.A., the proposed World Bank, etc. The scheme confines its attention to long-term exchange stabilisation and the balance of payments on current account only.

While stabilisation of exchange rates is aimed at with a view to encourage international trade, full recognition is given in the scheme to the fact that the pursuit of national economic destinies is too complex for any international agency to assess or superwise

* Details of the three Plans are given in Appendix D.

and, therefore, wide room is allowed to members for exchange adjustment—both in view of post-war transitional conditions and in view of later developments. Even unilaterally a member could adjust exchange parity by 10 per cent. without any sanction by any extraneous agency, and by a further 10 per cent. with the sanction of the Fund. In the meanwhile, other countries are allowed full freedom to meet the situation on account of some currency becoming scarce and the Fund not being able to manage the situation satisfactorily.

Thus, exchange control is contemplated as a normal privilege of any monetary system. On the contrary, any country could insulate itself against import of inflationary conditions quickly by resorting to exchange adjustment (appreciation). This facility alike permits Britain to follow a policy of full employment by resorting to appropriate exchange depreciation, and (for example) Hyderabad to pursue a policy of social welfare by resorting to exchange appreciation when in British India there is a runaway inflation.

The scheme proposes the Fund to deal with the "Monetary Authority" in the member-countries. This suits such countries as have yet to develop central banking functions or agencies (special) to shoulder them.

Any member is free to secede from the Fund easily—of course meeting its liabilities as early as possible. This, in addition to other provisions referred to above, should ensure wide support to the scheme at the hands of new, small and undeveloped countries which might otherwise demur for fear of eternally entangling themselves in the unknown.

It is a sort of an International Gold Exchange Standard: it proposes to link all currencies with gold at a certain rate, to fix the rates of exchange as amongst the participating members, and to compel the members to buy and sell all currencies at prescribed parities subject to very narrow margins. This "going back to the old husband" must again ensure for the scheme warm support all round: the British Empire and the U.S.S.R. are the chief producers of gold: the U.S.A. and India are the main holders of gold. At the same time, gold has not been assured a fixed value in terms of any currency for all time. This allows for non-gold-holding countries following suitable policies of internal development based on reflation.

Due recognition has been given in the scheme for the sterling *bloc* continuing intact and Britain maintaining multilateral clearing as within that *bloc*. As yet, no details have been decided on with regard to quotas of share capital and proportion of representation on the executive body of the Fund, specially for the small countries. How far membership of the sterling *bloc* and that of the Fund should

not lead to "divided loyalties" in the case of the self-governing Dominions and India, will largely depend on the commonsense and tact with which matters will be handled—specially in the transitional and preparatory years. During the last depression, Australia depreciated her currency, and on account of a disequilibrium between costs and prices, Britain will in all probability depreciate her currency. How far this would help or hinder countries now in the sterling *bloc* is a matter deserving serious consideration. Recent gold sales in India at 67 dollars per fine ounce when the American price is only 35 dollars, and that under the auspices of the Government and the Reserve Bank of India, and the summary way in which India's sterling balances are being disposed of in the British press,* it is hoped, are instances of bravadoism which will not recur.

The Fund and Hyderabad

The foregoing paragraphs go to show that the Scheme has great promise, and it is in the fitness of things that India and Hyderabad should co-operate in making a success of the Scheme and augmenting human welfare. Participation in the Scheme does not hold out much positive advantage for Hyderabad. Rather, membership should enable her to hold her own and get on to what is due to her. Hyderabad has little prospect of deficit balances of payments, she has little need for foreign loans, nor is she anxious to accumulate foreign

* While the Supply Member assumes as an axiom the realisation of India's sterling balances in full value at *"reasonable competitive prices"* (British supply of capital goods to India), the following report of the latest by the Liberal *News Chronicle* expresses much nearer the real situation.

"With reference to the 'tremendous financial obligations' incurred by Britain, the Paper says the main item therein is the undischarged overseas liabilities in the form of sterling balances and short-term obligations. It points out that much the largest share of this debt is that of India which is now 'increasing more rapidly than ever'. It emphasises the total debt owed to all countries—probably £3,000 million by the end of the war—will be a tremendous burden 'equal to *three times the American debt we failed to repay after the last War*'. It states, however, "this debt will be funded at a lower rate of interest than offered to America and also by reason of the probable substantial rise in our national income, the real weight of this World War II won't be three times that of the World War I debt. Nevertheless, to discharge it over 62 years (the period fixed for American debt repayment) reckoning interest at only 1 per cent. would need *annual instalments of approximately £60 million—almost double the £33 million American debt payment on which we defaulted in* 1932." (Italics are by the authors.) Paraphrased, this passage could mean only one thing: "With one-third the debt owed to an independent country and spread over 62 years, we defaulted and the United States wrote off What about India's dues? Step by step, we shall postpone, spread the repayment over long periods, lower the rate of interest, block the instalments for some time, and .... if world war III breaks out by that time, the Indian debt will be scrapped even as the American, and if this world war III does not break out, the annual instalment of £60 million could be easily reduced to something nominal in real terms—what with high prices, low quality, shipping charges, banking and insurance commissions, not to mention exchange adjustment on which we are relying so much for post-war planning."

balances and make foreign investments. Her chief ambition, at any rate for the time being, is to raise the standard of life among the masses to a satisfactory level, and this requires a scale of internal development which might well occupy all her attention and all her resources for a long time to come. But in this process of development, Hyderabad is desirous that Britain should deal with her in the same spirit of decentralisation with which the scheme has dealt with Britain. The following are some of the chief points on which Hyderabad claims freedom of action—through which she hopes to build a healthy economic edifice in these Dominions, which in its turn should correspondingly strengthen the British Commonwealth of Nations.

(*a*) Hyderabad is the only Indian State which has a full-fledged currency with long traditions behind. Recently, the Hyderabad State Bank has been started with a view to develop banking of all kinds in the country. She has a population of over 16 million and her national income is estimated to exceed £175 million per annum. She has a far-reaching programme of post-war planning. For these reasons, Hyderabad should not only become a member of the scheme but also get suitable representation on the different bodies pertaining to the scheme. Hyderabad demanded representation at the Monetary Conference in July. Just as in the case of the other Dominions in the British Commonwealth, this should not mean her going out of the sterling *bloc*. As far as necessary, Hyderabad would utilise the sterling structure for clearing.

(*b*) This should mean that Hyderabad should not be confined to compulsory clearing through the British Indian rupee. Clearing would be resorted to by Hyderabad, through the British Indian rupee, through sterling and through the Fund, according to needs.

(*c*) Hyderabad should be given freedom with regard to capital transactions. She must be free to utilise her present Indian and British balances (securities and shares) for her development purposes and not be bound by the convenience of the Indian money market. Also, if and when necessary, she must be free to borrow in any part of the world.

(*d*) Similarly, Hyderabad should be free to secure a suitable amount of gold from the American Treasury at statutory rates, from out of her reserves to a reasonable extent. This should be quite necessary in view of the place given to gold in the scheme. Some time ago, China borrowed $500 million gold, the bulk of which has been earmarked in the United States only.

(*e*) Hyderabad should be permitted to adjust the external value of her rupee according to her internal needs—again quite in accord-

ance with the principle laid down in the scheme.* Due to exchange pegging, the Hyderabad Government and people have paid several crores as "taxation by inflation" to the Government of India, the only justification for this being *co-operation for victory*—the principle underlying Lease-Lend. Similarly, she must be allowed to resort to suitable exchange control for the moment in order to minimise the hardships on account of the free import of inflationary conditions. She has already exercised the right of reflation and will continue to exercise it in the future.

(*f*) In the interests both of Hyderabad and British India, Hyderabad should be freed from developing excessive dependance on British India in the economic sphere. This does not mean that co-operation should sag. A suitable dollar reserve at New York should help Hyderabad as much as a sterling reserve in London.

(*g*) The difficulties of the situation cannot be exaggerated, but the eagerness of H.E.H. the Nizam's Government to co-operate with the Government of India for the common good of India and of the British Empire, is second to none. At the same time, the plea is put forward that in view of the unique traditions of Hyderabad and her long-standing ties of friendship with the British Commonwealth of Nations, Hyderabad should be accorded in the scheme a place identical with that given to Canada, Australia, South Africa, New Zealand and British India. To-day, the U.S.A. is anxious for world co-operation lest a world slump should spell disaster to herself: A stronger and a happier Hyderabad should further strengthen Federated (or confederated) India and the British Commonwealth of Nations.

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* The following observations made by the *Economist* on exchange adjustment, while discussing the new International Monetary Fund Scheme, are interesting:—

Indeed, by implication, the new proposals seem to suggest that changes of exchange rates, instead of being, as originally, the one prohibited method of adjustment, shall be the normal means. A member may change the value of its currency by ten per cent. on its own initiative and by a further ten per cent. with the permission of the Fund, which has to decide within two days. The Fund, moreover, is instructed to approve a requested change "if it is essential to correct a fundamental disequilibrium" and it may not reject a requested change necessary to restore equilibrium "because of domestic, social or political policies of the country applying for a change". In addition, it is to take into account the extreme uncertainties that will prevail when the post-war parities of exchange are first determined. It is not too much to say that these provisions, especially in the absence of any reference to other methods of adjustment, give the new Scheme, in contrast to the original proposals, a definite bias in favour of moderate changes in exchange rates. This is a great improvement. Nobody, of course, likes exchange alteration, which are most inconvenient for the trader. But they are, on balance, much the least disturbing of all means of effecting a readjustment when a fundamental disequilibrium has arisen.

CHAPTER XXIV

CONCLUSION

"If the public life of Hyderabad is to succeed and if you who are devoting your energies to the building up of a Greater Hyderabad are to have a scope for useful work, you should try to clear the atmosphere so that public questions and economic questions are viewed with a sense of reality and not in an atmosphere of prejudice or make-believe."

—THE HON'BLE MR. GHULAM MOHAMMED, C.I.E.,
Finance Member, H.E.H. The Nizam's Government.

IT is with a sense of realism, with a view to clear an atmosphere of prejudice and make-believe, this book has been written. Some have said: "It is a happy combination of both the Imperial Bank of India and the Reserve Bank of India." Really, the attempt to intermix certain features of both of them is likely to lead to unhappy developments later.

Indeed, the Act, as it is, will in all probability lead to a duumvirate of a new type in a new field: holding of bullion by Bank, minting by Government: printing of notes by Government, issue by Bank: exchange stabilisation by Government, administration by Bank; Osmania Sicca Stabilisation Reserve for exchange stabilisation, the whole of it invested on long-term: Paper Currency Reserve with Bank, "cash" time deposits out of this with the Imperial Bank of India: the Bank entrusted by the Preamble of the Act with the work of a central bank, the Imperial Bank of India and the Central Bank of India to continue with extra-territorial powers. The danger cannot be ignored of the Bank turning out to be a dummy between the "Currency Controller" on the one side and the Imperial Bank of India on the other, between Government's plenary powers on the one hand and Government's assured majority of votes on the other—something like the typical village co-operative credit society, run in the names of villagers, real and imaginary, by the Inspector who has got to show progress in numbers. Well, if the present scheme has been self-imposed, it is a great pity; the sooner we get out of it, the safer. If it has been super-imposed, it must be resisted by Government and Bank together.

To naturalise it we require a Consolidated Currency and Bank Note Act improving on the three Acts of 1321 F., 1327 F. and 1350 F. The Bank deserves a rechristening, a re-allocation of *all* functions and powers of a real and effective central bank, and

everything possible must be done both by Government and the Bank for the latter to attain full status as early as possible. The prime consideration should be, not of the privilege of the Government nor of the profits of the Bank, but of the future of the economy of these Dominions. In finance and economics, as in politics, emancipation is possible only through institutionalisation.

APPENDIX A

1

HYDERABAD CURRENCY ACT

NO. III OF 1321 F.

(*As amended by Act No. III of* 1329 *F.* and *VIII of* 1345 *F.*)

(Received the assent of His Highness the Nizam on the 17th Rabi-us-sani 1329/Hijri 12 Khurdad 1320/17th April 1911 A.D.)

Preamble

Whereas it is expedient to consolidate and establish the law relating to His Highness the Nizam's currency; it is hereby enacted as follows:—

Preliminary

Short title—

1. This Act may be called the Hyderabad Currency Act.

Local extent and commencement—

2. (1) It extends to the whole of His Highness the Nizam's Dominions excluding British Post Offices and Telegraph Offices and such other places as H. H. the Nizam may be pleased hereafter to exclude expressly from the application of this Act.

(2) It shall come into force at once.

Interpretation clause—

3. In this Act, unless there is anything repugnant in the subject or context:—

(i) "Nizam's coin" means and includes metal stamped and issued by the authority of His Highness the Nizam's Government, in order to be used as money. and which has not subsequently been called in and withdrawn by notification under sub-section 3 of section 21 of this Act.

(ii) "Remedy" means variation from the standard weight and fineness.

(iii) "Deface" with its grammatical variations includes chipping, filing, stamping or such other alterations of the surface or shape of a coin, as are readily distinguishable from the effects of reasonable wear.

(iv) "Standard weight" means the weight prescribed under this Act for any coin.

Gold Coinage

Gold coinage—

4. Only such gold coins shall be coined at the Mint and of such design, weight and fineness, as His Highness the Nizam may from time to time direct by general notification.

SILVER COINAGE

Silver coinage—

5. The undermentioned silver coins only shall be coined at the Mint, for issue under the authority of His Highness the Nizam's Government:—

(1) The Rupee, to be called the Halli Sicca Oosmania Rupee.
(2) The half-rupee or eight-anna piece.
(3) The quarter-rupee or four-anna piece.
(4) The two-anna piece.

Their standard weight and fineness—

6. The standard weight of the Halli Sicca Oosmania Rupee shall be 172.5 grains troy and its standard fineness shall be as follows:— Nine-elevenths or 141.13 grains of fine silver and two-elevenths or 31.37 grains of alloy.

The other silver coins shall be of proportionate weight and of the same fineness.

Remedy—

Provided that in the making of silver coins, a remedy shall be allowed an amount not exceeding the following, *viz.*:—

Name of coin	Remedy in weight	Remedy in fineness
Rupee	Five-thousandths of its own weight	Four-thousandths
Half-rupee	Do.	do.
Quarter-rupee ..	Seven-thousandths of its own weight	do.
Eighth of a rupee ..	Ten-thousandths of its own weight	do.

Diameter of silver coins—

7. Until His Highness the Nizam's Government otherwise determine by notification under sub-section (i) of section 21 of this Act, the diameter of the various silver coins referred to in section 5 shall be as follows:—

			Diameter in inches
The Rupee	..	..	1·20313
The half-rupee	..	..	0·96875
The quarter-rupee	..	..	0·81250
The two-anna piece	..	..	0·60938

7-A. (1) A nickel one-anna piece shall be coined at the Mint for issue under the authority of H.E.H. the Nizam's Government.

The diameter of one-anna piece—

(2) Until H.E.H. the Nizam's Government otherwise direct by notification under sub-section 1 of section 21 of this Act, the one anna piece shall have a diameter of ·8 of an inch.

The standard weight of one-anna piece—

(3) The standard weight of the one-anna piece shall be 57.5 grains troy; provided, that a remedy shall be allowed and the

maximum and minimum weight of the coin shall be 59.0 grains and 56.0 grains respectively.

COPPER OR BRONZE COINAGE

Copper or bronze coinage—

8. The following copper or bronze coins only shall be coined at the Mint, for issue under the authority of His Highness the Nizam's Government.

(1) One-pie or one-twelfth of an anna, weighing 30 grains.

(2) The two-pie or one-sixth of an anna, weighing 60 grains.

(3) Six-pie or half-anna, weighing 180 grains.

Provided that in the making of copper and bronze coins a remedy in weight shall be allowed not exceeding one-fortieth of the weight of the coin.

Diameter of copper coins—

9. Until His Highness the Nizam's Government otherwise determine by notification under sub-section (1) of section 21 of this Act the diameter of the various copper or bronze coins mentioned in section 8 shall be as follows:—

	Diameter in inches
The half-anna	1·23438
The two-pie piece	0·81250
The one-pie piece	0·64063

DEVICES ON COINS

Devices on silver coins—

10. Until His Highness the Nizam otherwise command, the silver coins coined under this Act, shall bear on the obverse the likeness of the Char Minar with the letters "*mim*" in its arch, the Hijri year of manufacture at the bottom of the coin; and the inscription "Nizam-ul-Mulk Asaf Jah Bahadur" round the outer circumference of the upper portion of the coin and surmounted with the number 92. On the reverse side, the coin shall show in the centre the denomination of the coin: round the outer circumference, the inscription "Julus-i-Maimanth Manus Zarb-i-Farkhunda Bunyad Hyderabad", in Arabic letters, with the year of His Highness the Nizam's reign and such further embellishments as His Highness the Nizam may from time to time command.

Devices on copper coins—

11 Until His Highness the Nizam otherwise command, the nickel, the copper or bronze coins coined under this Act, shall bear on the obverse in Toghra the words "Nizam-ul-Mulk Asaf Jah Bahadur" and the Hijri year of manufacture; on the reverse, the designation of the coin in the centre and the same inscription as has been prescribed in section 10 for the reverse side of silver coins.

LEGAL TENDER

Silver coins specified in section 5 are legal tender—

12. The silver coins specified in section 5 shall be legal tender subject to any notification that may be issued hereafter under sub-

section (3) of section 21 of this Act, and subject to the following conditions.

The rupee and half-rupee shall be legal tender in payment or on account up to any amount.

Provided that the coin (*a*) has not lost in weight so as to be more than 2 per cent. below standard weight, (*b*) has not been defaced.

Four-anna and two-anna pieces—

The quarter-rupee and eighth of a rupee shall be legal tender in payment or an account for any sum not exceeding one rupee, subject to the above provisos (*a*) and (*b*)

One-anna piece when legal tender—

12-A. Subject to provisos (*a*) and (*b*) of section 12 the nickel one-anna piece, specified in section 7-A, shall be legal tender in payment of dues or on account of any transaction, at the rate of 16 pieces to a rupee, upto any sum not exceeding one rupee.

Copper or bronze coins when legal tender—

13. The copper or bronze coins specified in section 8 shall be legal tender in payment or on account for any sum not exceeding one rupee at the following rates subject to any notification that may be issued hereafter under sub-section 4 of section 21 of this Act and subject to provisos (*a*) and (*b*) in section 12.

The half-anna coin at the rate of 32 per rupee, the two-pie coin at the rate of 96 for a rupee, the one-pie coin at the rate of 192 for a rupee.

Copper or bronze coins when legal tender—

14. Halli Sicca coins issued under the authority of His Highness the Nizam's Government before the passing of this Act shall, subject to the conditions mentioned in section 12, be legal tender until such time as they are called in and withdrawn by a notification under sub-section 3 of section 21 of this Act.

The copper coins known by the name of Alamgiri dubs shall be legal tender, at the rate of 96 to the rupee, until such time as they are called similarly in and withdrawn.

DIMINISHED, DEFACED AND COUNTERFEIT SILVER COINS

Power to cut or break diminshed or defaced silver coins—

15. Where any silver coin which has been coined and issued under the authority of His Highness the Nizam's Government, is tendered to any person duly authorised by the Government to act under this section and such person has reason to believe that the coin

(*a*) is more than 2 per cent. below the standard weight, or

(*b*) has been defaced, or

(*c*) has been called in and withdrawn by a notification under sub-section (3) of section 21 of this Act,

he shall by himself or another, cut or break the coin and shall return the pieces to the person tendering the coin or if such person so requests, shall retain them for verification in the Government Mint.

The pieces so retained shall, after valuation, be paid for at such rates as may be prescribed in this behalf.

Procedure in regard to silver coins believed to be counterfeit—

16. Where any silver coin purporting to be coined or issued under the authority of His Highness the Nizam's Government is tendered to any person authorised by the Government to act under this section, and such person has reason to believe that the coin is counterfeit, he shall by himself or another, cut or break the coin and dispose of the pieces in such manner, as the Government may, by notification, from time to time direct: or if the person tendering the coin so requests, he shall send them to the Government Mint for examination and report.

If after examination of the pieces sent to the Government Mint, the coin which has been cut or broken is declared not to be counterfeit, the person who tendered it shall be paid its nominal value, subject to the provisions of section 15, as regards value, in case the coin be diminished or defaced.

PROHIBITIONS AND PENALTIES

Objections to accept Nizam's coin in exchange for goods sold or services rendered—

17. No person offering goods for sale in exchange for cash payments, or rendering service of any kind for hire shall refuse to accept at its face value, subject to the conditions under which it is legal tender, any Nizam's coin tendered to him, in payment of the price of such goods, or of the hire charged for the services rendered.

Whoever acts in contravention of the provisions of this section, shall be liable, on conviction, to fine not exceeding Rs. 100 or in default to simple imprisonment not exceeding 30 days.

Exchange between silver and copper coins—

18. Whoever exchanges any of the silver coins mentioned in section 5 for any of the copper coins mentioned in section 8 of this Act, at rates not within the limits fixed by His Highness the Nizam's Government under sub-section (4) of section 21, shall be liable to fine of Rs. 50 on first conviction and on any subsequent conviction of such offence to a fine of Rs. 100.

Procedure regarding offences mentioned in sections 17 *and* 18—

19. Offences mentioned in sections 17 and 18 shall be (*a*) bailable, (*b*) non-cognizable, and (*c*) triable by any Magistrate, subject to the provisions of the Criminal Procedure Code of His Highness' Government defining the powers of Magistrates and in the case of Europeans and Americans to the provisions of Chapter 28 of the said Code.

MISCELLANEOUS

Bar of suits for acts done bona fide—

20. No suit or other proceedings shall be maintained against any person, in respect of anything done by him in good faith and in pursuance of the provisions of this Act.

Rules by notification—

21. His Highness the Nizam's Government may, from time to time, by notification in the *Jarida*,

(1) alter the dimensions or design of silver, nickel, or copper and bronze coins, as specified in sections 7, 7-A and 9 respectively,

(2) direct the coining and issuing of all coins referred to in sections 5, 7-A and 8,

(3) call in and withdraw coins, of any date or denomination, coined in the Nizam's Dominions, before the date mentioned in the notification,

(4) notify from time to time the maximum and minimum rates at which any of the copper coins mentioned in section 8 may be exchanged, with any of the silver coins mentioned in section 5,

(5) notify from time to time the maximum and minimum rates at which the Halli Sicca Oosmania rupee can be exchanged with the B.G. rupee, for the purposes of this Act,

(6) authorise persons to cut or break diminished, or defaced coins, under section 15 or coins believed to be counterfeit under section 16 or provide rules for the guidance of persons so authorised, and notify from time to time the rates at which payment, if any, shall be made in the case of coins dealt with under the sections named herein,

(7) regulate any matters relative to coinage and to the Mint, which are not provided for in this Act.

Every such notification shall come into force on the day therein in that behalf mentioned and shall have effect as if it were enacted in this Act

2

THE HYDERABAD PAPER CURRENCY ACT

NO. II of 1327 F.

(Received the assent of H. E. H. the Nizam on the 30th Teer 1327 F./23rd Shabhan 1336 H./4th June 1918 A.D.)

Whereas it is expedient to provide for the issue and regulation of paper currency, it is hereby enacted as follows:—

PRELIMINARY

Short title, commencement and extent—

1. This Act may be called "The Hyderabad Paper Currency Act", and it shall come into force in the whole of the Dominions of H. E. H the Nizam from the date of its publication in the *Jarida.*

THE DEPARTMENT OF PAPER CURRENCY

Department of Paper Currency for issue of currency notes—

2. There shall be a department of Public Service to be called the "Department of Paper Currency", whose function shall be the issue of Promisssory Notes of the Government to be called "Currency Notes", payable to bearer on demand, and of such denominational values, as the Government may from time to time prescribe by notification in the *Jarida.*

Commissioner and Head Commissioner of Paper Currency—

3. The executive head of the Department will be the Commissioner of Paper Currency who will work under the general control of the Head Commissioner of Paper Currency.

The Accountant-General shall be the *ex-officio* Commissioner and the Assistant Minister, Finance, the Head Commissioner, of Paper Currency.

Office of issue of currency notes—

4. The office of issue of currency notes shall be located at Hyderabad.

SUPPLIES AND ISSUE OF CURRENCY NOTES

Supply and distribution of currency notes—

5. The Head Commissioner shall provide currency notes of the denominational values prescribed under this Act, and shall supply the Commissioner with such notes as he may need for the purposes of this Act.

Signature to currency notes—

6. The name of the Head Commissioner or the Commissioner shall be subscribed to every such note and may be impressed thereon by machinery and when so impressed, shall be deemed to be a valid signature.

Issue of currency notes—

7 The Commissioner shall on the demand of any person, issue or cause to be issued currency notes of the denominational values prescribed under this Act, in exchange for the amount thereof in rupees or half-rupees, which are legal tender under the Hyderabad Currency Act No III of 1321 F

Provided that His Exalted Highness's Government may, by notification, direct that for any specified period the amount of the currency notes issued under this section shall be limited.

Issue of currency notes for certain securities, bullion or coin, which is not legal tender—

8. The Assistant Minister, Finance, may, from time to time, direct that currency notes shall be issued to any amount equal to the value of British Government gold or silver coin, gold or silver bullion, or securities of the kind mentioned in section 9 which he may set apart as a reserve to secure the payment of such notes.

Kind and limits of the securities to be in reserve—

9 The securities mentioned in section 8 shall be securities of the Government of India or securities issued by the Government, or securities issued by any Company working or owning any Railway in the Dominions.

Provided that the value of such securities at the price at which they are purchased shall not exceed one-third of the total value of notes in circulation at any time.

Trustee of the securities—

10 The securities mentioned in the last preceding section shall be held by the Head Commissioner.

CURRENCY NOTES WHERE LEGAL TENDER AND WHERE PAYABLE

Currency notes where legal tender—

11. A currency note shall be a legal tender at any place in the Dominions for the amount expressed in the note, in payment or on account of :—

(*a*) any revenue or other claim due to the Government,

(*b*) any sum due by the Government or any body corporate or person in the Dominions.

Provided that the amount of currency notes presented for payment at the office of issue shall be payable in the coin mentioned in the Hyderabad Currency Act No. III of 1321 F.

Currency notes where payable—

12. A currency note shall be payable on demand at the office of issue.

RESERVE

Amount and constituents of reserve and security for the paper currency—

13 Subject to the provisions of section 9, the whole amount of currency notes at any time in circulation shall not exceed the total

amount represented by (1) rupees or half-rupees of H. E. H. the Nizam's Government, (2) gold or silver coin of the British Government; and (3) the sum expended in the purchase of gold or silver bullion and securities, which are for the time being held by the Assistant Minister, Finance, as a reserve to provide for the satisfaction and discharge of the said notes, and the said notes shall be deemed to have been issued on the credit of the Government as well as on the security of the said coin, bullion and securities.

Provided that for the purpose of this section, currency notes which have not been presented for payment in the case of notes of any denominational value not exceeding one hundred rupees, within 50 years, and in the case of notes of any denominational value exceeding one hundred rupees, within 100 years, from the first day of Azur following the date of their issue, shall be deemed not to be in circulation.

Provided further that all notes which are declared under the first proviso to this section not to be in circulation shall be deemed to have been issued on the credit of H. E. H. the Nizam's Government, and shall if subsequently presented for payment be paid from the revenues of the said Government.

Power to sell securities and alter constituents of the reserve—

14. Subject to the condition that the provisions of section 13 are not contravened in any way, the Assistant Minister, Finance, may at any time if he thinks expedient, sell or dispose of the securities held in the paper currency reserve or convert the constituents of the reserve from one form into another.

PRIVATE BILLS PAYABLE TO BEARER ON DEMAND

Prohibition of issue of private bills or notes payable to bearer on demand—

15. No person in H. E. H. the Nizam's Dominions shall draw, accept, make or issue any bill of exchange, hundi, promissory note or engagement for the payment of money payable to bearer on demand, or borrow, lend or take up any sum or sums of money on any such bill of exchange, hundi, promissory note or engagement.

Provided that cheques or hundis payable to bearer on demand or otherwise, may be drawn on bankers, shroffs or agents by their customers or constituents in respect of sums of money held in deposit by, or placed under the control of, such bankers, shroffs or agents to the credit and disposal of the persons drawing such cheques or hundis.

Penalties for issuing such bills or notes and institution of prosecutions—

16. (1) Any person contravening the provisions of section 15 shall, on conviction by a magistrate of the first class, be punishable with a fine equal to the amount of the bill, hundi, note or engagement in respect whereof the offence is committed.

(2) Every prosecution under this section shall be instituted by the Commissioner.

MISCELLANEOUS PROVISIONS

Abstract of accounts—

17. An abstract of the accounts of the Department of Paper

Currency shall be monthly made up by the Commissioner and as soon as may be, published in the *Jarida.*

Such abstract will show:—

(1) The whole amount of currency notes in circulation.

(2) The amount in the reverse of Oosmania and the British Government coin with the value of the latter, and the amount of bullion, distinguishing gold from silver with the price paid therefor.

(3) The nominal value of and the price paid for the securities held as part of the reserve.

Accounts of receipts and expenditure of the Department—

18. An account showing the amount of interest accruing on the securities held as part of the reserve under this Act and the expenses and charges incidental to the maintenance of the Department of the Paper Currency shall be rendered annually by the Commissioner to the Government.

Power to make rules—

19. (1) The Government may make rules to carry out the purposes and objects of this Act:

(2) In particular and without prejudice to the generality of the foregoing power:—

(*a*) fix the denominational values for which the currency notes shall be issued,

(*b*) fix and notify the conditions upon which lost or mutilated currency notes may be paid at the office of issue,

(*c*) fix the rates at which the value of British Government gold and silver coins will be calculated.

(3) Every such rule shall be published in the *Jarida* and on such publication shall have effect as if enacted in this Act.

3

Business allowed and prohibited in the case of the Reserve Bank of India is found in the following extract from the Reserve Bank of India Act, 1934:—

The Bank shall be authorised to carry on and transact the several kinds of business hereinafter specified, namely:—

(1) the accepting of money on deposit without interest from, and the collection of money for, the Secretary of State in Council, the Governor-General in Council, Local Governments, States in India, local authorities, banks and any other persons,

(2) (*a*) the purchase, sale and rediscount of bills of exchange and promissory notes, drawn on and payable in India and arising out of *bona fide* commercial or trade transactions bearing two or more good signatures, one of which shall be that of a scheduled bank, and maturing within ninety days from the date of such purchase or rediscount, exclusive of days of grace;

(*b*) the purchase, sale and rediscount of bills of exchange and promissory notes, drawn and payable in India and bearing two or more good signatures, one of which shall be that of a scheduled bank, or a provincial co-operative bank, and drawn or issued for the purpose of financing seasonal agricultural operations or the marketing of crops, and maturing within nine months from the date of such purchase or rediscount, exclusive of days of grace;

(*c*) the purchase, sale and rediscount of bills of exchange and promissory notes drawn and payable in India and bearing the signature of a scheduled bank, and issued or drawn for the purpose of holding or trading in securities of the Government of India or a local Government, or such securities of States in India as may be specified in this behalf by the Governor-General in Council on the recommendation of the Central Board, and maturing within ninety days from the date of such purchase or rediscount, exclusive of days of grace;

(3) (*a*) the purchase from and sale to scheduled banks of sterling in amounts of not less than the equivalent of one lakh of rupees,

(*b*) the purchase, sale and rediscount of bills of exchange (including treasury bills) drawn in or on any place in the United Kingdom and maturing within ninety days from the date of purchase, provided that no such purchase, sale or rediscount shall be made in India except with a scheduled bank; and

(*c*) the keeping of balances with banks in the United Kingdom;

(4) the making to States in India, local authorities, scheduled banks and provincial co-operative banks of loans and advances, repayable on demand or on the expiry of fixed periods not exceeding ninety days, against the security of—

(*a*) stocks, funds and securities (other than immovable property) in which a trustee is authorized to invest trust money by any Act of Parliament or by any law for the time being in force in British India;

(*b*) gold or silver or documents of title to the same;

(*c*) such bills of exchange and promissory notes as are eligible for purchase or rediscount by the Bank;

(*d*) Promissory notes of any scheduled bank or a provincial co-operative bank, supported by documents of title to goods which have been transferred, assigned, or pledged to any such bank as security for a cash credit or overdraft granted for *bona fide* commercial or trade transactions, or for the purpose of financing seasonal agricultural operations or the marketing of crops;

(5) the making to the Governor-General in Council and to such Local Governments as may have the custody and management of their own provincial revenues, of advances repayable in each case not later than three months from the date of the making of the advance.

(6) the issue of demand drafts made payable at its own offices or agencies and the making, issue and circulation of bank post bills;

(7) the purchase and sale of Government securities of the United Kingdom maturing within ten years from the date of such purchase;

(8) the purchase and sale of securities of the Government of India or of a Local Government of any maturity or of such securities of a local authority in British India or of such States in India as may be specified in this behalf by the Governor-General in Council on the recommendation of the Central Board:

Provided that securities fully guaranteed as to principal and interest by the Government of India, a Local Government, a local authority or a State in India shall be deemed for the purpose of this clause to be securities of such Government, authority or State:

Provided further that the amount of such securities held at any time in the Banking Department shall be so regulated that—

(*a*) the total value of such securities shall not exceed the aggregate amount of the share capital of the Bank, the Reserve Fund and three-fifths of the liabilities of the Banking Department in respect of deposits;

(*b*) the value of such securities maturing after one year shall not exceed the aggregate amount of the share capital of the Bank, and the Reserve Fund and one-fifth of the liabilities of the Banking Department in respect of deposits; and

(*c*) the value of such securities maturing after ten years shall not exceed the aggregate amount of the share capital of the Bank and the Reserve Fund and one-fifth of the liabilities of the Banking Department in respect of deposits;

(9) The custody of monies, securities and other articles of value, and the collection of the proceeds, whether principal, interest or dividends, of any such securities;

(10) the sale and realisation of all property, whether movable or immovable, which may in any way come into the possession of the Bank in satisfaction, or part satisfaction, of any of its claims.

(11) the acting as agent for the Secretary of State in Council, the Governor-General in Council, or any local Government or local authority, or State in India in the transaction of any of the following kinds of business, namely:—

(*a*) the purchase and sale of gold or silver;

(*b*) the purchase, sale, transfer and custody of bills of exchange, securities or shares in any company;

(*c*) the collection of the proceeds, whether principal, interest or dividends, of any securities or shares,

(*d*) the remittance of such proceeds, at the risk of the principal, by bills of exchange payable either in India or elsewhere;

(*e*) the management of public debt;

(12) the purchase and sale of gold coin and bullion;

(13) the opening of an account with or the making of an agency agreement with, and the acting as agent or correspondent of, a bank which is the principal currency authority of any country under the law for the time being in force in that country or any international bank formed by such banks, and the investing of the funds of the Bank in the shares of any such international bank;

(14) the borrowing of money for a period not exceeding one month for the purposes of the business of the Bank, and the giving of security for money so borrowed:

Provided that no money shall be borrowed under this clause from any person in India other than a scheduled bank, or from any person outside India other than a bank which is the principal currency authority of any country under the law for the time being in force in that country:

Provided further that the total amount of such borrowings from persons in India shall not at any time exceed the amount of the share capital of the Bank;

(15) the making and issue of bank notes subject to the provision of this Act; and

(16) generally, the doing of all such matters and things as may be incidental to or consequential upon the exercise of its powers or the discharge of its duties under this Act.

When, in the opinion of the Central Board or, where the powers and functions of the Central Board under this section have been delegated to a committee of the Central Board or to the Governor, in the opinion of such committee or of the Governor as the case may be, a special occasion has arisen making it necessary or expedient that action should be taken under this section for the purpose of regulating credit in the interests of Indian trade, commerce, industry and agriculture, the Bank may, notwithstanding any limitation contained in sub-clauses (*a*) and (*b*) of clause (2) or sub-clause (*a*) or (*b*) of clause (3) or clause (4) of section 17—

(i) purchase, sell or discount any of the bills of exchange or promissory notes specified in sub-clause (*a*) or (*b*) of clause (2) or sub-clause (*b*) of clause (3) of that section though such bill or promissory note does not bear the signature of a scheduled bank or a provincial co-operative bank; or

(ii) purchase or sell sterling in amounts of not less than the equivalent of one lakh of rupees; or

(iii) make loans or advances repayable on demand or on the expiry of fixed periods not exceeding ninety days against the various forms of security specified in clause (4) of that section:

Provided that a committee of the Board or the Governor shall not, save in cases of special urgency, authorized action under this section without prior consultation with the Central Board and that in all cases action so authorized shall be reported to the members of the Central Board forthwith.

FORBIDDEN BUSINESS

Save as otherwise provided in sections 17, 18 and 45, the Bank may not

(1) engage in trade or otherwise have a direct interest in any commercial, industrial or other undertaking, except such interest as it may in any way acquire in the course of the satisfaction of any of its claims; provided that all such interests shall be disposed of at the earliest possible moment;

(2) purchase its own shares or the shares to any other bank or of any company, or grant loans upon the security of any such shares;

(3) advance money on mortgage of, or otherwise on the security of, immovable property or documents of title relating thereto, or become the owner of immovable property, except so far as is necessary for its own business premises and residences for its officers and servants:

(4) make loans or advances,

(5) draw or accept bills payable otherwise than on demand;

(6) allow interest on deposits or current accounts.

4

Business allowed and prohibited in the case of the Hyderabad State Bank is found in the following extract from the Hyderabad State Bank Act, 1350 Fasli:—

SCHEDULE II

(*See Section* 19)

PART I

BUSINESS WHICH THE BANK IS AUTHORISED TO CARRY ON AND TRANSACT

(A) Government Business

The Bank shall be authorised to give effect to all arrangements entered into with the Government and to carry on and transact the several kinds of business hereinafter specified, *viz.*:—

Obligation of the Bank to transact Government business—

1. (i) The Bank shall undertake to accept moneys for account of the Government, and to make payments up to the amount standing to the credit of their accounts respectively, and to carry out their exchange, remittance and other banking operations, on such conditions as may be agreed upon between the Government and the Bank.

Bank to accept Government business on terms to be agreed upon—

(ii) The Bank shall accept on such conditions as may be agreed upon with the Government—

(*a*) the custody and management of the various Reserves, including the Paper Currency Reserve,

(*b*) all the money, remittance, exchange and banking transactions of the Government outside the Dominions;

(*c*) all the cash balances in British Government currency surplus to the ordinary requirements of the Government; and

(*d*) all the cash balances of the Government in Osmania Sicca Currency as deposits free of interest:

Provided that nothing in this clause shall prevent the Government from carrying on money transactions at places within the Dominions where the Bank has no branches or agencies, and the Government may hold at such places such balances as they may require.

Bank to accept management of Public Debt on terms to be agreed upon—

2. The Bank shall accept, on such conditions as may be agreed upon with the Government, the management of the public debt and the issue of any new loans.

Right to issue Government currency notes through Currency Department—

3. (i) The issue of all currency notes shall be conducted by the Bank as agents for the Government, in a Currency Department which

shall be separated and kept wholly distinct from the Banking Department (the Government retaining the sole right to print currency notes for circulation within the Dominions as provided in the Hyderabad Paper Currency Act No. II of 1327 F.), and the assets of the Currency Department shall not be subject to any liability other than the liabilities of the Currency Department.

(ii) The Currency Department shall not issue currency notes to the Banking Department or to any other person except in exchange for other currency notes or for such coin, bullion or securities as are permitted by the Hyderabad Paper Currency Act No. II of 1327 F. to form part of the Reserve.

Income payable to Government—

4. The assets of the Currency Department shall be held in a separate Reserve as provided by the Hyderabad Paper Currency Act No II of 1327 F., and the net income derived therefrom, less a fixed charge to be agreed upon annually between the Government and the Bank, shall be paid to the Government at the end of each half year:

Provided that gold or silver bullion and rupee coin and rupee securities of the Government and of the Government of India, belonging to the Paper Currency Reserve, which are in any other bank or in any treasury of the Government or in H. E. H. the Nizam's Mint or in transit, may be reckoned as part of the assets

Liabilities of the Currency Department—

5 The liabilities of the Currency Department shall be an amount equal to the total of the amount of the currency notes of the Government for the time being in circulation.

Initial assets and liabilities—

6. On the date this Act comes into force the Currency Department shall take over as agents for the Government, the liability for all the currency notes of the Government for the time being in circulation, the Government simultaneously transferring to the Currency Department gold and silver bullion, rupee coin and rupee securities of the Government and of the Government of India to such aggregate amount as is equal to the total of the amount of the liability so transferred. The coin, bullion and securities shall be transferred in such proportion as to comply with the requirements of the Hyderabad Paper Currency Act No II of 1327 F.

Suspension of assets requirements—

7. (i) Notwithstanding anything contained in this Act or the Hyderabad Paper Currency Act, No. II, of 1327 F., the Bank may, with the previous sanction of the Government, for periods not exceeding thirty days in the first instance, which may, with the like sanction, be extended from time to time by periods not exceeding fifteen days, hold as assets gold and silver bullion and rupee coin and rupee securities of the Government and of the Government of India, of less aggregate amount than that required under the Hyderabad Paper Currency Act, No. II, of 1327 F., and, whilst the holding is so reduced, the foregoing provisions and the relative provisions of the Hyderabad Paper Currency Act No II, of 1327 F, shall cease to be operative:

Provided that the gold or silver bullion and rupee coin and rupee securities of the Government and of the Government of India, held as such assets, shall not be reduced below ninety per cent. of the aggregate amount of the currency notes in circulation.

(ii) In respect of any period during which the holding of the assets is reduced under sub-clause (1), the Bank shall pay to the Government a tax, upon the amount by which such holding is reduced, at bank rate with a minimum of five per cent. per annum.

Obligations of Government and the Bank in respect of rupee coin—

8. Notwithstanding anything contained in the Hyderabad Currency Act, No III, of 1321 F., all rupee coins shall be put into circulation through the Bank, and the Bank shall undertake not to dispose of rupee coin otherwise than for the purposes of circulation or by delivery to the Government for any purpose provided in the Hyderabad Currency Act, No. III, of 1321 F.

Obligation to supply different forms of currency—

9. The Bank shall issue rupee coin on demand in exchange for currency notes of the Government, and shall issue currency notes of the Government on demand in exchange for coin which is legal tender under the Hyderabad Currency Act, No. III, of 1321 F. In exchange for currency notes of five rupees or upwards the Bank shall supply coins or currency notes of lower value which are legal tender under the Hyderabad Currency Act, No. III, of 1321 F., and the Hyderabad Paper Currency Act, No. II, of 1327 F., respectively, in such quantities as may, in the opinion of the Bank, be required for circulation, and the Government shall supply such coins or currency notes to the Bank on demand. If the Government at any time fails to supply such coins or currency notes, the Bank shall be released from its obligations to supply them to the public.

Obligation to sell British Government rupees—

10 The Bank shall sell on Government account, out of the cash assets of the Currency Department, to any person who makes a demand in that behalf and pays the purchase price in legal tender currency, British Government Rupees, at the minimum rate fixed by the Government from time to time by notification in the *Jarida*.

Obligation to buy British Government Rupees—

11. The Bank shall buy on Government account, out of the cash assets of the Currency Department, from any person who makes a demand in that behalf, British Government Rupees, at the maximum rate fixed by the Government from time to time by notification in the *Jarida*.

Monthly statement of assets and liabilities of Currency Department to be submitted to Government—

12. (i) The Bank shall prepare and transmit to the Government a monthly statement of assets and liabilities of the Currency Department in the form required under the Hyderabad Paper Currency Act, No. II, of 1327 F., for publication in the *Jarida*.

(ii) An officer of the Finance Department not below the rank of an Assistant Accountant-General shall be deputed at least once a year to verify the statement of the assets and liabilities of the Currency Department in such manner as may be specified by the Government.

(B) Other Business

The Bank is also authorised to carry on and transact the several kinds of business hereinafter specified, namely:—

1. the advancing and lending money, and opening cash-credits upon the security of—

(*a*) stocks, funds and securities (other than immoveable property) in which a trustee is authorised to invest trust money by any law or anything having the force of law for the time being in force in H. E. H. the Nizam's Dominions, Great Britain, India, British Burma or Ceylon;

(*b*) H. E. H. the Nizam's State Railway shares or such securities issued by State-aided railways in India as may be notified by the Government from time to time,

(*c*) H. E H the Nizam's Government securities; or debentures or other securities for money issued under the authority of any law or anything having the force of law for the time being in force in H E. H. the Nizam's Dominions, India or British Burma by, or on behalf of, a district board or a municipal board or committee, or debentures or other securities for money issued under the authority of a Prince or Chief of any State in India;

(*d*) subject to such directions as may be issued by the Board, debentures of companies with limited liability whether registered in the Dominions or elsewhere;

(*e*) goods which, or the documents of title to which, are deposited with, or assigned to, the Bank as security for such advance, loans or credits;

(*f*) goods which are hypothecated to the Bank as security for such advances, loans or credits, if so authorised by special directions of the Board;

(*g*) accepted bills of exchange and promissory notes endorsed by the payees and joint and several promissory notes of two or more persons or firms unconnected with each other in general partnership;

(*h*) fully paid marketable shares of companies with limited liability, or immoveable property or documents of title relating thereto as collateral security only where the original security is one of those specified in sub-clauses (*a*) to (*e*) and subject to such directions as may be issued by the Board, when the original security is of the kind specified in sub-clauses (*f*) and (*g*):

Provided that:

(i) any advances or loans which the Government may lawfully accept from the Bank may, if the Board thinks fit, be made without any specific security;

(ii) any advance guaranteed by the Government may be made with or without any specific security; and

(*iii*) advances may be made, if the Board thinks fit, against marketable shares of companies with limited liability, registered in the Dominions, which may carry the Government's guarantee or be placed by the Government from time to time on an approved list;

2. the selling and realisation of the proceeds of sale of any such promissory notes, debentures, stock-receipts, bonds, annuities, stock, shares, securities or goods which, or the documents of title to which, have been deposited with, or pledged, hypothecated, assigned or transferred to, the Bank as security for such advances, loans or credits, or which are held by the Bank or over which the Bank is entitled to any lien or charge in respect of any such loan or advance or credit or any debt or claim of the Bank, and which have not been redeemed in due time in accordance with the terms and conditions (if any) of such deposit, pledge, hypothecation, assignment or transfer;

3 the advancing and lending of money to the Court of Wards upon the security of estates in its charge or under its superintendence and the realisation of such advances or loans and any interest due thereon:

Provided that no such loan or advance shall be made without the previous sanction of the Government, and that the period for which any such advance or loan is made shall not, without the sanction of the Government, exceed twelve months;

4. the drawing, accepting, discounting, buying and selling of bills of exchange and other negotiable securities;

5. the investing of the funds of the Bank upon any of the securities specified in sub-clauses (*a*) to (*d*) of clause (1) of Part I-B of this Schedule and converting the same into money when required, and altering, converting and transposing such investment for or into others of the investments above specified;

6. the depositing, with or without interest, of the funds of the Bank with the Reserve Bank of India, or any other Bank approved of by the Government, whether in the Dominions or elsewhere;

7. the issuing of letters of credit;

8. the buying and selling of gold and silver whether coined or uncoined;

9. the receiving of deposits and keeping cash accounts on such terms as may be agreed on;

10 the acceptance of the charge of plate, jewels, title deeds or other valuable goods on such terms as may be agreed on;

11. the selling and realising of all property, whether moveable or immoveable, which may in any way come into the possession of the Bank in satisfaction or part satisfaction of any of its claims, and the acquisition and holding of, and generally the dealing with, any right, title or interest in any property, moveable or immoveable, which may be the Bank's security for any loan or advance or may be connected with any such security;

12. the transacting of pecuiary agency business on commission and the entering into of agreements, contracts of indemnity, suretyship or guarantee with specific security or otherwise;

13 the administration of estates for any purpose whether as an executor, trustee or otherwise, and,

the acting as agent on commission in the transaction of the following kinds of business, namely:—

(*a*) the buying, selling, transferring and taking charge of any securities, debentures or any shares of any company;

(*b*) the receiving of the proceeds whether principal, interest or dividends, of any securities, debentures or shares;

(*c*) the remittance of proceeds referred to under sub-para (*b*) by public or private bills of exchange payable either in the Dominions or elsewhere;

14. the drawing of bills of excange and the granting of letters of credit payable out of India;

15. the buying of bills of exchange payable out of India;

16 the borrowing of money for the purposes of the Bank's business and the giving of security for money so borrowed by pledging assets or otherwise;

17. the subsidising from time to time of the pension fund or such other fund or funds as may be created for the benefit of the employees of the Bank;

18. the transacting of such other business, not specifically mentioned in Part I—B of this Schedule, as may be agreed upon between the Government and the Bank;

19. generally the doing of all such matters and things as may be incidental or subsidiary to the transacting of the various kinds of business, including foreign exchange business, hereinbefore specified; and

20 notwithstanding anything contained in Part II of this Schedule the Bank may perform the functions of the Land Mortgage Bank as provided by the Hyderabad Land Mortgage Bank Act, No. II, of 1349 F, on such terms and conditions as may be agreed upon between the Government and the Bank.

PART II

BUSINESS WHICH THE BANK IS NOT AUTHORISED TO CARRY OUT OR TRANSACT

1. The Bank shall not transact any kind of banking business other than those specified in Part I and in particular, it shall not make any loan or advance:—

(*a*) for a longer period than twelve months, or

(*b*) upon the security of stock or shares of the Bank; or

(*c*) save in the case of the estates specified in clause (3) of Part I—B upon mortgage or in any other manner upon the security of any immoveable property, or the documents of title relating thereto.

2 The Bank shall not discount or buy, or advance and lend, or open cash-credits on the security of any negotiable instrument of any individual or partnership firm, payable in the town or at the place where it is presented for discount, which does not carry on it the several responsibilities of at least two persons or firms unconnected with each other in general partnership:

Provided that nothing in this Part shall be deemed to prevent the Bank from allowing any person who keeps an account with the Bank to overdraw such account, without security, to such extent as may be prescribed.

5

PRESS COMMUNIQUE

Under Schedule II, Part 1-A, of the Hyderabad State Bank Act, 1350 F., H. E. H. the Nizam's Government have authorised the Hyderabad State Bank to carry on and transact the following business on terms and conditions specified in the agreement dated the 6th day of Dai, 1352 F., between the Government and the Bank:—

(1) The exchange, remittance and other banking transactions of the Government at the Bank's Head Office at Hyderabad and Branches in the Dominions, as and when opened.

(2) The money, remittance, exchange and banking transactions of the Government outside the Dominions.

(3) The management of Public Debt.

(4) The management of the State currency as agents for the Government.

(5) Obligations to buy and sell, on behalf of Government, B.G. Rupees in exchange for State currency at the maximum and minimum rates, fixed by the Government.

The public are hereby informed that from *Tuesday, the 7th Khurdad* 1353 *F., corresponding to the* 11*th April* 1944, the Hyderabad State Bank will take over the Central Treasury, Public Debt Office and also the management of the Currency Department, as agents to Government. From the date of transfer, *i.e.*, 7th Khurdad 1353 F., the above Departments will observe the same holidays and working hours as the Hyderabad State Bank.

There will be no change in the procedure at present followed in these Departments; but, on account of the change in the management, the public are requested to address all correspondence with effect from the 7th Khurdad 1353 F., to the Secretary, Hyderabad State Bank, instead of to the Accountant-General or Superintendent, Central Treasury, specifying the name of the Department to which the correspondence relates

26th Ardibehist 1353 F./March 30, 1944.

6

VALUE OF NOTES IN CIRCULATION AND COMPOSITION OF THE PAPER CURRENCY RESERVE ON THE LAST DAY OF KHURDAD 1353F.

Name of month	Value of notes in circulation	Reserve held in Hyderabad			Reserve held in England		Currency notes in Govt. Treasuries Rs.	Internal bills of exchange held on account of Government Rs.
		Gold Rs.	Silver Rs.	Govt. securities Rs.	Gold Rs.	Sterling securities Rs.		
For the month of Khurdad 1353 Fasli ..	39,78,05,213		15,44,55,393	24,33,49,820	..	..	2,36,52,569	..

Details of silver Rs.—

Cash in Cash Chest and District Treasuries	..	10,85,187	0	3
Deposits in Banks	.	15,33,70,205	15	9
TOTAL	..	15,44,55,393	0	0

7

NAME AND VALUE OF GOVERNMENT CURRENCY NOTES OF EACH DENOMINATION IN CIRCULATION ON THE LAST DAY OF KHURDAD 1353 F.

Name of month	Denomination Rs.	No. of pieces	Value Rs.	Remarks
For the month of Khurdad 1353 F.	1	2,37,32,728	2,37,32,728	
	5	47,66,875	2,38,34,375	
	10	1,32,05,071	13,20,50,710	
	100	11,18,114	11,18,11,400	
	1,000	1,06,376	10,63,76,000	
		TOTAL VALUE ..	39,78,05,213	

8

EXTRACT FROM THE HYDERABAD CURRENCY AMENDMENT ACT OF 1351F.

Their standard weight and fineness—

The standard weight of the Halli Sicca Oosmania Rupee shall be 172 5 grains troy and its standard fineness shall be as follows:—

(86 25) grains of fine silver and (86.25) grains of alloy.

The other silver coins shall be of proportionate weight and of the same fineness.

9

Section No 9 of the Hyderabad Paper Currency Act has been amended with the approval of H.E.H the Nizam. It is regarding change in the ratio of cash and securities in the Reserve. It has been amended that cash in the Reserve should be 30 to 40 per cent. and securities 60 to 70 per cent The amendment has been published in the *Jareeda* No. 44, dated the 30th Meher 1352 F.

This has been further amended as per Executive Council's Resolution, dated the 8th Aban 1352 F., that the Reserve should hold one-third in cash and two-third in securities.

APPENDIX B

Hyderabad and India are as much in the war to-day as Britain and the appended extracts (for the number and length of which the authors do not apologise) must help in educating the local Central Bank and public in the art of war finance.

Is Bank Rate Obsolete?

It is now seven years since Bank rate in this country was reduced to two per cent., and since then there has been no change. Indeed, only last week Sir John Simon repeated the Government's assurance that the policy of cheap money would be continued, and this is the one explanation of the recent relapse in discount rates and rally in gilt-edged prices. Now at the time of its introduction in 1932, and for several years, afterwards, the case for cheap money was overwhelming; for trade and industry then needed all the stimulus that could be given to them. Since then, however, we have had the 1933-37 recovery, the 1937-38 recession, and what looks like becoming the second recovery of 1939; and as the B.I.S. points out this present recovery is a feverish movement, intermingled with rearmament finance and expenditure and lacking stability. It would be rash to conclude that because a 2 per cent. Bank rate has survived all these changes, and because it is still appropriate to-day, it can, or should, continue for ever.

Monetary policy is now determined by the Government and not by the Bank of England. From a democratic standpoint that is right, but in actual practice the Government possesses a dual and at times a divergent interest. One of the first duties of the Treasury is to keep down unnecessary expenditure, and this duty is becoming more insistent with the growing cost of rearmament. This means that it is essential to borrow as cheaply as possible. The more the Chancellor has to borrow, the more difficult and the more important that duty becomes, and the more necessary he finds it to follow a cheap money policy Yet heavy borrowing itself might create conditions in which a higher Bank rate would be inevitable. It is not suggested here that this is more than a possibility to be borne in mind. Suffice it to point out that the Government's duty to the tax-payer and its duty to the broad economic interests of the nation may not always agree.

Furthermore, it should not be forgotten that, for the purpose of turning slump into recovery, it is not so much the low level as the reduction of money rates that is relevant. Obviously, if money rates are already so low as to be irreducible, that particular stimulus cannot be applied, and so it may be that if money were kept cheap at all stages of the trade cycle, we should be sacrificing some of its potential benefits. To-day the impression is that the demands of rearmament upon the available factors of production make the danger of a fresh depression remote, but if at some future date it becomes

possible to relax our rearmament efforts, we may be hard put to it to prevent a sharp recession in trade and employment.

For these reasons, therefore, it would be wrong to regard a 2 per cent. Bank rate as immutable. It is not suggested that a change would be appropriate to-day or at any particular time in the future. The B.I S. Report, however, has performed a useful service in reminding us that Bank rate may still have its uses. As the Report says, Bank rate may be a smoother, swifter and more certain weapon than the modern system of restriction, both official and unofficial. We remain to-day closer to the gold standard than many people realise, and we ought not to delude ourselves that we are approaching the monetary millennium or that we can abandon as obsolete all the weapons which, when properly used, served us well in the past.

* * * *

A Three Per Cent. War

Articles in the two previous issues of *The Economist* have dealt in some detail with the further contribution that taxation could, and should, make to the problem of paying for the war. But the conclusion of these articles was that even with heavy increases in direct and indirect taxation, with optimistic assumptions of the effect that the attainment of "full employment" will have on the revenue, with full allowance for the yield of excess profits taxation and for the profits of Government trading, the revenue cannot be expected to rise above about £1,750 millions—unless there is a general inflation of money values, which it should be the main object of all financial policy, to avoid. Expenditure, on the other hand, is already running at over £2,500 millions a year and will probably be well over £3,000 millions in the financial year 1940-41. The peak may be as high as £4,000 millions.

Clearly, then, there is an enormous gap between revenue and expenditure, probably amounting to about £2,000 millions in the coming year, unless there are further increases of taxation in April. When the war reaches its height, even drastic increases of taxation of the order of those discussed last week will still leave a gap of about the same dimensions This gap can only be filled by borrowing or by inflation. It is obviously essential that the borrowing by the Government of the nation's savings should be raised to the highest possible point, and every artifice of persuasion or enticement can legitimately be used for the purpose. But there is a grave danger that the desire to increase the volume of genuine borrowing to a maximum, in order to avoid the peril of inflation, may over-reach itself and defeat its own object. The boundary between genuine borrowing—that is, the borrowing of savings—and inflation can very easily be obscured, and there can be no doubt that much of what appeared to be genuine borrowing from private citizens in the last War was, in truth, rank inflation.

There are many definitions of inflation as there are writers on the subject. But in the context of a war economy it can best be defined as the spending by the Government of money that has been newly created for the purpose. The test is comparatively simple, in

theory; for every pound that the Government spends, has some private individual or institution foregone the expenditure of a pound which he would otherwise have spent? If the answer is Yes, then there is no inflation, no matter whether the private individual devoted the pound he did not spend to the payment of taxes, to subscription to War Loan, or merely to the enlargement of his cash holding. But if the Government's expenditure increases without a corresponding reduction in the expenditure of the public, then there is inflation and prices will rise, no matter what the formal appearance of the means by which the Treasury raises money. For example, if the citizen subscribes to War Loan not out of cash set free by the limitation of his expenditure, but out of advances made to him by the banks for the purpose (and possibly on the security of the loan to which he is subscribing), then the net effect of the transaction is that the banking system has created credit which has been lent to the Government. The citizen has not diminished his expenditure and the Treasury's money, when it comes to be spent, will, therefore, have to compete with this undiminished expenditure by raising prices. This method of increasing subscriptions to War Loan was openly and deliberately encouraged during the last War, in the mistaken belief that there could be no question of inflation so long as the loan was subscribed by the public. But in truth this method is every whit as inflationary as the direct granting of Ways and Means Advances by the Bank of England or the joint-stock banks.

It may, therefore, be suggested that the first principle of borrowing policy in the present war should be to borrow every penny of the genuine savings of the nation, but not to encourage an expansion of bank credit merely in order to ensure success for Government issues. To do so has two defects. First, it involves the State in paying, for created money, a rate of interest appropriate to savings. Secondly, it lulls the public and the Government into the comfortable belief that inflation is being avoided when the reverse is true. It obscures the fact that borrowing serves to avoid inflation only when it is entirely met out of genuine savings. If the impression is created that there is no limit to the amounts that can be borrowed, then the incentive to increase genuine savings to the utmost disappears. It is far sounder policy to recognise that there is a limit to what can be borrowed, to use every device to push that limit as high as possible, but not to exceed it. Any gap still remaining in the Government's account, after every effort has been made must in any case be covered by inflation. It would be far better to recognise it as such and to deal with it by methods that are appropriate to inflation, not by those that are proper to borrowing.

Where is the limit of genuine borrowing to be set? The gross savings of the community at the outbreak of the war cannot have been more than about £750 millions a year at the most. Moreover, this total includes the amounts provided for the depreciation of existing capital, and we cannot safely assume that no provision of this sort will be needed in time of war. On the other hand, the growth of the national income as employment expands will contribute something to the total of savings, and the campaign of propaganda for National Savings must be allowed to have a considerable effect. But even with the exercise of optimism, the amount that can be

secured from genuine savings cannot be put higher than £750 millions a year, and even this figure is almost certainly too high.

If this were the end of the matter the prospect would be very dismal indeed. But it is not the end of the story. The total of savings can be increased by either or both of two methods, in addition to exhortation by propaganda. The first is compulsory savings. This subject has been well ventilated in the discussion following on Mr. Keynes's plan and no more need be said of it here. The second is by a deliberate extension of rationing. If all goods of a luxury or semi-luxury kind are unobtainable and all other goods are in short supply, the public will find it impossible to spend its money and savings will automatically increase. The idea may sound fanciful, and it does indeed require a formidable apparatus of control, but it can be done by mobilising every resource of rationing, of heavy sumptuary taxes and of prohobiting the manufacture of certain kinds of articles. The proof that it can be done lies in the fact that it is by this means that Nazi Germany has hitherto been financed without inflation. Drawing a bow completely at a venture, we may guess that another £750 millions might by this means be added to the national savings—and to the possible total of non-inflationary borrowing. But for anything like this sum to be made available, it would be necessary to take the most thorough measures to prevent any sort of unnecessary expenditure, whether on income or capital account.

The purpose of these measures would be to increase the *amount* of money that would be borrowed. But they would also make it possible to control the *cost* of the borrowing. For if the public is put in a position where it cannot help saving and cannot do anything with its savings except lend them to the Government, the rate of interest becomes a factor of minor importance. In peacetime, increases in rates of interest may be necessary to increase the total of savings or at least to tempt them from one channel into another. In a controlled war economy, either purpose is necessary. In the last War, it is true, there was a steady rise in interest rates. But this was partly the result of a deliberate policy and partly a necessary result of the encouragement of private persons to borrow from the banks in order to subscribe, since nobody could be expected to pay a higher rate of interest on his advance than he was offered on his investment. In this war, it is difficult to see any reason why the rate of interest should not be pushed below its present level, rather than rise above it The weapon of credit expansion has a powerful effect on the gilt-edged market, and if the joint-stock banks are kept well supplied with cash (and the other elements of liquidity) they will dutifully increase their investments. It is at any rate a safe conclusion that interest rates need not rise.

* * * *

The Technique of Inflation

To the man in the street the technique of inflation is to print paper money. Inflation does, it is true, require a larger circulation of currency; but the notes are issued as the result of a demand for them from the public; their increase comes at a late stage in the process of inflation and for a British Government to finance itself

by printing notes would merely be a waste of ink and paper, since all but a fraction of the notes would be promptly paid back into the banks. The sort of money that would have to be created if the British Government were unable to meet all of its expenditure from revenue or from the national savings would be bank credit, and it is in the deposits of the joint-stock banks that the money, after its first expenditure by the Government, would accumulate. Inflation in a British context consequently means the creation of joint-stock bank credit. The most direct and appropriate method of inflating, if it cannot be avoided, would, therefore, seem to be the deliberate creation of additional credit by loans direct from the joint-stock banks to the Government. This would, it is true, violate the tradition that the Bank of England is the Government's banker, from whom alone the Exchequer borrows But the tradition is little more than a formality in these days, when a quarter of the joint-stock banks' assets are in gilt-edged securities and a further substantial proportion in Treasury bills. Borrowings from the Bank of England are pyramided in the fashion familiar to banking theory. A Ways and Means advance of £10 millions from the Bank of England has the effect of increasing the cash of joint-stock banks by £10 millions, and would, in certain circumstances, permit an increase in the banks' deposits of nine or ten times that amount. To finance the Treasury from the Central Bank is to ensure that the scale of the inflation and the damage it does are both at a maximum. The borrowing should be direct from the joint-stock banks.

This is, in fact, what has already been happening. In the absence of a large War Loan, the Treasury has been financing its expenditure by an increasing issue of Treasury bills, the bulk of which are either in the banks' portfolios or are held by the money market on funds borrowed from the banks. This method of borrowing, it may be added, can hardly be deemed inflationary in its present form or its present extent, since it is the clear intention that these additional amounts of Treasury bills are merely the forerunners of long-term financing. But the continued issue of Treasury bills indirectly to the joint-stock banks through the intermediary of the money market would provide a feasible method of inflating, and it would at least be preferable to the indirect issue of expensive War Loan to the banks through the intermediary of the public. It would, nevertheless, be desirable to avoid as great an expansion in the debt as would arise if anything of the order of £500 to £1,000 millions of Government expenditure were financed in that way every year. The mechanism of the money market is hardly strong enough to cope with enormous numbers of bills maturing every three months, and there might, in some future circumstances, be political disadvantages if the Government were under the necessity of renewing a very large debt to the banks every few weeks.

These considerations seem to point to something in the nature of long-term Ways and Means advances by the joint-stock banks to the State with an average life of, say, twenty years. But if the security is to be of a long-term character, the question of the rates of interest immediately arises. It was suggested last week that, for genuine savings, the Government should offer about 3 per cent. There would be no justification whatever for the payment of so high

a rate on created credit Normally, when a bank creates credit by making an advance on good security, it is performing the necessary and valuable function of turning illiquid wealth into liquid credit, and it is entitled to the going rate of remuneration for that service. But in the circumstances here envisaged it would be the community's credit that would be liquefied, and the community, represented by the Exchequer, would be entitled to require that the rate of interest should be no more than the cost of handling the funds—say, ½ per cent. per annum. The banks' legitimate profits would not be damaged by such a rate, since these advances to the State would be a net addition to their normal volume of business indeed, the resulting inflation would tend to increase their "normal" turnover. These advances should not, in fact, rank as part of the ordinary business of the banks, but as a special supernumerary service that they render to the community. The banks could, however, legitimately ask that, if they are to receive no more than ½ per cent. in interest, they should be protected from depreciation of principal which would be automatic if the advances were embodied in securities that would be transferable and quoted on the Stock Exchange. To secure this, and at the same time to protect individual banks' liquidity, it would probably be necessary to provide that the advances should be rediscountable at par at the Bank of England though, perhaps, at a rate of discount that would discourage recourse to the Bank. This, again, would be a clear breach with accustomed practice, which could only be justified as part of a consistent plan of mobilising the financial resources of the community in a struggle for the community's survival.

The order of ideas very vaguely and tentatively suggested in this article is not merely unprecedented and unorthodox, but it carried some psychological danger. Inflation must not be made to appear easier than it is Yet the recognition of inflation, if it cannot be avoided, is well founded in logic, and action of the general nature outlined here would be the means of saving the community very large sums of public money. But precedent and orthodoxy cannot be defied with impunity. We come back, at the end of the argument, to the point from which we started. The soundness of our wartime financial policy will be measured by the extent to which the necessity for these devices is avoided. We must first carry taxation and the rationing of expenditure to the utmost limits that are humanly supportable. Only when these efforts have been carried as far as they can be will it be right to consider the technique of inflation.

* * * *

Drifting Towards Inflation

For the fifth month in succession the monthly survey of the state of business contained in *The Economist* Trade Supplement bears evidence of a rapid and widespread rise in the tempo of economic activity in Great Britain. The Economist Index of Business Activity, the most comprehensive of all the measures of general activity, is within two points of the highest figure it ever recorded. Activity is especially great in those industries which are large employers of labour, with the result that the total of employment is higher than at

any previous time. This general rise in activity is not by any means limited to the armament industries (widely though their net is now spread), it is affecting the majority of industries and most uneven. The stimulus comes from industry, not from commerce or finance; and this has the effect, as a by-product, that London which for most of the post-war years has been the leader of a country, is now in many ways falling behind. It is the provinces that are busy; the West End is still under a cloud, while the City is downright depressed. But the fact that there are exceptions or even that the usual leaders are now the laggards, does not alter the fact that we are well over the threshold of a boom.

The cause of this very rapid increase in industrial activity is, of course, the gigantic defence programme, which is now estimated to cost £730 millions in the current year. The total expenditure of the Exchequer this year will be at least £1,425 millions; six years ago it was only £690 millions. In short, Government expenditure, which was already approaching one-fifth of the whole national income, has been doubled in six years, most of the increase being concentrated in a very small period. A change of this magnitude, however it had been financed, would inevitably have had enormous effects upon the economic structure of the country But as it is, only about two-thirds of the State's expenditure is to be met from taxation. At least £500 millions (that is, nearly three-quarters of the whole expenditure six years ago) is to be borrowed. Moreover, none of these figures includes the large sums to be lent to foreign countries.

Just as there can be no question of the cause of the rapid increase in activity, so there can be no doubt of its continuance. But where will the process of expansion end? There will obviously be an increased strain on the national finances when the present increase in the national debt has to be paid for But that is a headache for the future. On the other hand, the economic effects are already with us—and they are likely to be very large, since what is happening is that the State is suddenly doubling the scale of its operations and financing the increase by borrowing. So long as there were unemployed resources to be absorbed, the disturbance was small, and the increased armaments have been obtained hitherto at very little real cost to the community—it has at least not had to limit its consumption of more useful goods.

Full employment, however, is now very close upon us. When it has been reached, when there are no more unemployed resources of labour or capital of the varieties required, a further increase in the State's activities can be secured only by restriction of all other activities. That restriction can be brought about by an increase in taxation, which would reduce consumption. But there is no sign that additional taxation will be even considered before next April. Or the restriction can be brought about by the direct requisitioning of supplies. The Ministry of Supply, it is true, has the power to impose priorities, and to the extent that it exercises its powers it compels other would-be consumers to wait. But any effect produced by this means is likely to be outweighed by the increased spending of armament wages. Or, finally, the restriction of consumption other than that of the Government can be achieved by a rise of prices—in a word, by inflation. There are thus a number of different ways

in which the necessity to make room for a doubling or trebling of Government expenditure can be met. But the point that seems to be hardly yet appreciated is that one method or the other must be pursued once full employment is reached. It was because of his urging of this painful truth in precisely similar circumstances in Germany that Dr Schacht was dismissed. And though his stand was widely applauded in England, there is a singular unwillingness to apply lesson to our own conditions. The situation has this danger: that any of the alternatives to inflation involves forethought, organisation and painful decisions. Only inflation can come uninvited.

The problem can easily be put into figures. The direct borrowing of the State is to be at least £500 millions in the current year. Foreign countries and the Dominions are to be allowed to raise sums in this market that may well add up to £100 millions in twelve months. Local authorities, with their heavy new commitments, cannot be refused access to the market; nor can private industry, at least that part of it that is engaged in defence work. The grand total of unavoidable borrowing can hardly be less than £800 millions and may well be £1,000 millions. But the present net savings of the nation, even after they have been inflated by the increased earnings of a boom period, will fall several hundred millions below the amount required.

It may be that those who are responsible to the nation for its financial guidance have deeply pondered the matter and have decided that inflation—that is, the restriction of civil purchases by a rise in the cost of living—is not only the easiest way of solving the problem, but the best way. Such a decision would, it is true, run counter both to theoretical teaching and to the experience of the last War, but it is conceivable that it has nevertheless been reached. There is no sign, however, in either the words or the deeds of the authorities to suggest that they have deliberately reached such a decision, or even that they have deliberated at all. An example of the off-hand way in which the problem is being dismissed can be drawn from the latest pronouncement of Authority, the speech by the Chancellor of the Exchequer on the third reading of the Finance Bill In his Budget Speech, it will be remembered, when he found himself faced with the necessity of finding for defence £50 millions more than was included in the Estimates, Sir John Simon devoted a considerable part of his attention to the proper allocation between revenue and borrowing. But when, three months later, a still further sum, not of £50 millions but of £100 millions, is wanted, there is no discussion at all, either by the Chancellor or by anyone else. There is public debate on the proper rate of interest at which to borrow; but none at all on the proper amount to be borrowed. Even the keenest brains appear to be concentrating on incidentals and ignoring the main issue But if there were disadvantages, sufficient to justify an increase of taxation, in borrowing an additional £50 millions in April, are there not disadvantages, sufficient to justify an increase of taxation, in borrowing an additional £50 millions in April, are there not disadvantages sufficient to warrant a few words of explanation, in borrowing another £100 millions in July? We are three months nearer full employment, three months nearer inflation and three months nearer General Election. Does financial policy wait upon political advantage?

Nobody would wish to pretend that the gigantic problems of wartime finance can be solved by any simple formula. But what can be stressed with all possible urgency is that the problem, if left alone, will not stand still; it will solve itself by the method of inflation, which has always hitherto been considered the worst way. It has been the custom in this country, ever since the end of the War, to congratulate ourselves on the self-restraint and wisdom we showed, in greater measure than any other European country, in our war finance. Germany has been pointed out as proof that the aftermath of social disturbance produced by unsuccessful war finance can be worse than that of unsuccessful war itself. But it would now appear that the Germans, with or without Schacht, have learnt the lesson better than we have ourselves. They are mobilised for war finance, we are still drifting without any visible objective, plan or leadership.

* * * *

The Course of Gilt-Edged

Controlled prices always carry some disadvantages, and of minimum gilt-edged prices it may be paradoxically said that they are most useful when they remain ineffective. Their part is to provide a defence against severe but essentially temporary aberrations of prices in wartime. As soon as they become operative, they must be rendered irrelevant as quickly as possible, by a general recovery in prices. The existence of a minimum price schedule, of course, may itself play a part in recovery, if it prevents "snowball" selling and rallies support. But the raising of the price pegs last March to a considerably higher level than that prevailing immediately before war broke out was intended to do more. The Government nailed a 3 per cent. banner to the mast. This was supported by a general structure of interest rates, whose maxima were determined by the minimum price schedule, and which corresponded to 2 per cent. on a five-year bond, 2⅞ per cent. for five to ten-year stocks, 3⅛ to 3¼ per cent. for fifteen to twenty-year issues, and about 3⅝ per cent. "for irredeemables". By providing this firm basis for dealing in gilt-edged for the duration of the war, protection should be afforded to collateral security and to the investment portfolios of financial institutions But to implement such assurances, leading gilt-edged stocks must have both legs well free of minimum prices.

The task can be measured from the accompanying table, which sets out minimum prices at September 1938, end-August 1939, and mid-March this year, together with more recent comparisons of prices and redemption yields. Gilt-edged are now defending relatively advanced lines, compared with August last year, but they are lines which could not be abandoned without calling into question the assurances of the Government last March that they measured the determination of the authorities concerned to maintain low interest rates. More recently, the investor has been warned that no rate of interest is considered sacro-sanct; in other words, that these are maximum and not minimum rates for war borrowing. New powers over property, wielded by a new administration, must surely imply that there will be no departure from this clearly defined and widely approved policy. And

investors this week have been quick to take a hint from the appeal for interest-free loans that the principle of low interest rates will be properly enforced.

To make it effective, gilt-edged must stand firm at some level above minimum prices, though perhaps below the high quotation, before Germany invaded Holland and Belgium on May 10th. Otherwise, the attributes of minimum prices will be mere accounting make-believe. Doubtless there will be considerable support for the Chancellor's appeal on Tuesday for loans free of interest, and the Dominions have shown how such appeals can be successfully combined with open-market issues at interest. But the way to adequate war finance lies not through patriotic benevolence, but through a market marshalled and organised for the war effort. To equip the gilt-edged market for the war loans which will be needed in the very near future is an immediate task arising from the events of the past week.

It should be accompanied by closer consideration of the technical problem of security dealing, as far as that problem can be foreseen. The scheme for carrying out Stock Exchange business at Denham, if the City of London becomes untenable, is a clearing scheme, designed to maintain public confidence in the machinery of the Stock Exchange at a time when dealing will no longer be possible in the "House". It is an air-raid scheme, rather than an invasion scheme, and it is not intended, in the first instance at least, to provide anything more than the machinery for clearing bargains which members can make by telephone. But it may be necessary to widen the scope of the scheme in two ways—firstly, by providing an alternative to Denham, whose limited natural advantages have not been improved by the prospect of attempted invasion; and secondly, by devising some facilities for dealing by personal contact between brokers and jobbers in a new dealing centre. The task will not be a light one, but unless and until normal financial business breaks down, and the nation is forced to accept real rather than monetary standards, the need for a gilt-edged market which functions will continue to be paramount. The objection to Denham is not that the scheme is unnecessary but that it may prove insufficient to achieve this essential object.

Meanwhile, how is the recovery in gilt-edged, already well advanced, to be further encouraged? The authorities need few lessons to-day in the art of market control, and their power to intervene should not be minimised. Prices fell at first as a result of selling, but the unwillingness of jobbers to take any significant amount of stock on their books also accentuated the fall. Hence, the market was soon ripe for a technical response, and in fact it staged such a response after Mr. Churchill's speech on Tuesday. It may well be, further, that some institutional buyers of gilt-edged tend to wait for opportunities to obtain stock near minimum levels. If so, their duty and interest is plain. But the price pegs could be made more firm, and dealing conditions encouraged, if specific assurances could be given to jobbers, protecting them against the possibility of frozen "books" in the Funds. That suggestion may seem unorthodox, but the authorities are committed to a schedule of gilt-edged prices, and if necessary they must be prepared to reinforce them. A congealed market at minimum prices might be a worse evil than a free market at sadly depressed prices.

In other markets, as in gilt-edged, the investor's fate is the nation's fate. There is a case for extending some form of minimum price control to important groups of fixed-interest securities outside the trustee investment circle. Home railway prior charges, for example, are still being subjected to heavy pressure from a volume of selling which in normal conditions would be regarded as ludicrously small When a selling order for £1,500 of a senior debenture has to be split between three jobbers—an actual case this week—it is obvious that some protection is needed for a section of the market which in everything but legal qualification, ranks side by side with trustee investments.

There is no counsel for total war which can be usefully given to the equity shareholder, save that he should hold his stock. That is the sober duty of citizenship. It is also an appeal to self-interest, for on any rational weighing of the alternative possibilities of the war situation this is the wrong time to sell. Even in the short run, any selling of industrials, caused by temporary immobilisation of gilt-edged stocks, should soon be arrested. In the longer run, when national resistance can be transformed into initiative, the position of equities may be much more favourable than it is to-day. Admittedly, there are risks which cannot be minimised. The threat of air attack on specific industrial plants is responsible, for example, for yields of 15 per cent. on aircraft shares. And, in general, the equity interest in British industry is now vested in the nation as a whole, and not in a group of shareholders But unless one outcome of the war is the suppression of equity capital, the ordinary shareholder must be content to await the outcome of the war with the same personal courage and spirit of sacrifice as other sections of the community. There are two paramount tasks. The first is production for war needs, without count of profits or dividends. The second is the fullest mobilisation of savings and our financial resources to finance the productive machine Under both heads, the role of equity investment is of minor importance. But under the second task, the need for the continuous and efficient functioning of the gilt-edged market is inescapable.

* * * *

Banking Policy and the Cash Ratio

Though it is permissible to doubt whether the immediately responsible officials are fully aware of the true import of their policy in effecting given adjustments in the volume of bank cash through the appropriate open market operations, there can be no doubting the fundamental reversal in casual sequence which has taken place This new procedure of working from the given volume of credit, which the authorities regard as necessary to meet the circumstances of the day, to the appropriate amount of bank cash is not altogether revolutionary. We were groping towards it even between 1925 and 1931 when our gold bullion standard had about it a measure of management which offended the purists in such matters. After 1931, the movement made greater progress, but gold gains and losses and the operations of the Exchange Equalisation Account still had their fortuitous effects on bank cash and their consequent repercussions on credit

conditions. It is only since September 1939, that the adjustment of cash to the needs of the Treasury has become open and unashamed. We may hope that the objectives which the new technique will be called upon to serve in future will be more constructive than the deficit financing of to-day. But there should be no retreat from the principle involved. It is improbable that we shall allow ourselves to go back to a position where the amount of available credit is dictated by a total of bank cash itself determined by factors, such as the output of new gold, over which we have no complete control.

By "window dressing" is meant the practice followed by many companies of so redistributing their assets on the date of their balance sheets or other periodical returns as to show a more liquid position than actually obtains on other days of the working year. It is more commonly applied to banks than to the other companies. This is because the clearing banks, in preparing the monthly returns which they publish, dress their windows more often than other undertakings. Moreover, in the case of the banks, liquidity is a virtue of particular weight and publicity value, their redistribution of assets at said dates is, therefore, more vigorous than is customary with the general run of commercial and industrial concerns.

It is with reference to the banks' making up that the term "window dressing" is most generally used, and it has for many years formed part of the accepted phraseology of the money market Familiarity has not, however, endeared it to the banks They have consistently objected to its alleged implications of the bogus and the meretricious. In their defence, they have evolved a justification for the practice which, at any rate, until the beginning of the war, could be said to have some weight. The main argument they adduced in favour of window dressing was that it kept a healthy control over the discount market. The banks in working up their cash holding on balance sheet or "making up" days normally do so by calling in short loans from the money market. This procedure subjects the discount market —on which the banks' second line of liquidity defence depends—to periodical tests of its own liquidity. Moreover, when all the banks are calling up loans on the same day—as on the final working-days of the year and half-year—the discount market was, before the war—compelled to borrow extensively from the Bank of England. This in turn provided a severe test both of quality and the volume of the paper which the market carried in its portfolio. These six-monthly visits to the Bank were a salutary safeguard against overtrading and against dabbling in bills which were not eligible for rediscount or collateral at the central bank.

This justification of window dressing has been largely demolished by the war. The large bulk of the bills run by the market now consists perforce of Treasury bills No test of their quality is needed. As for the dangers of overtrading, it is not in its true discount business that the market needs control, but in its now overwhelmingly more important bond business; and in this direction the clearing banks' periodic calling up of loans can exert no control, since almost the whole of the discount market's bond financing is based on loans from other than clearing banks—the reason being that non-clearing bank money has for a long time past been available at lower rates than the fixed 1¼ per cent. charged by the clearing banks for bond

money. It follows that the corrective of window dressing by the clearing banks does not touch that part of the discount market's activities in war-time which is perhaps most in need of occasional check and correction. In any case the supervision of the Bank of England over the discount market can be trusted to prevent over-trading and achieve any other measure of control far more effectively than any indirect and incidental effect of window dressing by the clearing banks.

The war brought certain changes in the incidence of window dressing Until September 1939, each clearing bank made up its position on a certain day of the week, and the monthly returns were averages of the weekly figures. On the outbreak of the war, it was announced that the monthly returns would no longer be published—presumably for reasons of "security" and to save labour There was an immediate outcry against this extension of the statistical "black-out" and the banks relented. The basis of their monthly returns was, however, changed. The banks ceased to make up once a week and began to do so once a month. It may be assumed that if the Banks had had their way about the discontinuance of the monthly returns, there would automatically have been an end of window dressing except at the half-yearly balance sheet dates. It is perhaps unfortunate that the public was not allowed for a month or two this verification of the true purpose for which the banks go to the trouble of window dressing.

It might have been supposed that with the advent of war and the virtual disappearance of such case as might previously have been pleaded for window dressing, the clearing banks would have abandoned or at least moderated, the practice. The available evidence suggests that, on the contrary, the extent of this window dressing has increased appreciably during the past two years. The data for measuring the extent of the clearing banks' window dressing can be collected and presented with a very fair measure of accuracy; they will be found set out in the accompanying table, which goes back to 1938.

In column A, the figure is given of bankers' deposits at the Bank of England as at the close of business on Wednesdays and averaged for the periods shown These totals have to be corrected in order to measure that part of the bankers' balances which is held for account of the clearing banks The ratio of these two varies somewhat from time to time; but if it is assumed that clearing bank balances represent about 95 per cent of the total, the margin of error will not be large. The figures of bankers' balances, so adjusted, are given in column B Next (in column C) are given the Bank of England's monthly compilation of notes and coins held by the clearing banks, based on Wednesday figures submitted to the Bank by the clearing banks, and, therefore, exactly comparable with the figures shown in columns A and B By adding B and C a true figure is thus obtained of the clearing banks' total cash on each Wednesday expressed as a monthly average; these averages are shown in column D. These figures of bank cash can be compared with the total revealed in the clearing banks' aggregate monthly returns These, shown in column E, will be found to exceed persistently and, latterly, by a considerable margin, the cash holding as

calculated, not on the making up days, but on the Wednesdays of each week. The best measure of the discrepancy is to relate the published and true cash totals to the clearing banks' deposits (column F) and to contrast the cash ratios which appear in the banks' monthly returns (column G) with true cash ratio (column H). Finally (in column I), the disparity between the two sets of ratios is expressed as a percentage of the higher. It should be added that even these figures tend to belittle the disparity between the true and window-dressed figures This is because four out of eleven clearing banks do their monthly making up on Wednesdays, while the end of the year and half-year sometimes fall on a Wednesday. To that admittedly small extent the Wednesday figures are also contaminated by window dressing, and do not accurately measure the cash position on non-making up days.

The disparity between true and published cash ratios has increased considerably since the war. The banks may do their making up less often, but their compensation for this is to do it more vigorously. A discrepancy of less than 10 per cent in the period 1938-40 grew to 17·1 per cent. in 1941, while for the past twelve months the percentage has hovered around 20, exceeding that figure in the months of December and June, when, of course, window dressing reaches its half-yearly climaxes Why this intensification of window dressing when the always slender justification for it has disappeared, and when the keen inter-bank competition, in which the brandishing of high liquidity ratios might have played some part, has been put in cold storage for the duration? The answer is probably to be found in the banks' desire to maintain profits and in their unwillingness to offend against the hollow tradition of a minimum ten per cent. cash ratio. Given the present liberal character of the control of credit exercised by the authorities, the clearing banks no doubt consider that they can, with complete impunity, allow their cash holding to fall appreciably below the recognised traditional minimum and thus defend their profits against the encroachments made by the persistent reduction in advances, their most remunerative assets. They would be fully justified to reason thus. But if the banks are in effect working normally to an eight per cent. cash ratio, why make the pretence that the ten per cent tradition is still sacrosanct? If the true figure were put in the shop window, no confidence would be undermined, no business would be lost, and something would be gained for the cause of accuracy and integrity in banking statistics.

In Million £'s

Averages	Bankers' Deposits at Bank of England: Actual	Bankers' Deposits at Bank of England: Corrected for Clearing Banks	Notes and Coins held by Clearing Banks	Clearing Banks' Till Money: On Wednesdays	Clearing Banks' Till Money: On Making-up days	Clearing Banks' Deposits	Published Cash Ratio	True Cash Ratio	Index of Disparity between G & H
	A	B	C	D	E	F	G	H	I
							%	%	%
1938	106	101	117	218	241	2,277	10·6	9·6	9·5
1939	103	97	129	226	244	2,248	10·9	10·0	8·3
1940	11	105	138	243	268	2,506	10·7	9·7	9·4
1941	123	116	142	258	311	2,970	10·5	8·7	17·1
,, August	108	103	144	247	316	2,997	10·5	8·2	21·9
,, September	130	123	143	266	330	3,115	10·6	8·5	19·8
,, October	122	116	142	258	328	3,176	10·3	8·1	21·3
,, November	129	122	144	266	332	3,208	10·3	8·3	19·3
,, December	149	142	143	284	366	3,329	11·0	8·5	22·7
1942 January	140	133	149	282	330	3,222	10·2	8·8	13·7
,, February	131	124	143	267	318	3,085	10·3	8·7	15·5
,, March	135	128	143	271	347	3,072	11·3	8·8	22·1
,, April	126	120	141	261	319	3,081	10·3	8·5	17·5
,, May	129	123	143	266	326	3,131	10·4	8·5	18·3
,, June	130	124	147	271	355	3,263	10·9	8·3	23·9
,, July	141	134	146	280	342	3,264	10·5	8·6	18·1

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POLICING THE PRICE LEVEL

The immediate threat to Mr. Henderson's Office of Price Administration appears to be receding. The House of Representatives, at odds with the Price Administrator over the need for rationing and over questions of political patronage in the new organisation, cut his appropriation from the $195 millions to $75 millions--which would have made it impossible for the O.P.A. to enforce the ceilings. The Senate has raised the appropriation to $125 millions, and relaxed the provision which would have transferred power over the fixing of prices on processed agricultural products to the Secretary of Agriculture. It is not certain that the House will approve the increased appropriation authorised by the Senate, and there is a strong disposition in Congress to keep the reins in its own hands by making appropriations for as short a period as possible. But the flood of protests which Congress has been receiving make the financial crippling of O.P.A. less likely than it seemed. Mr. Henderson has been successful in manœuvring Congress into the unenviable position of appearing to want to play politics with the cost of living.

Mr. Henderson's survival does not mean that the problem of price control is solved. The O.P.A. never blinked the fact that the most generous grant of funds and powers will be useless to maintain ceilings, if effective action is not taken to narrow the inflationary gap caused by the increase of purchasing power, at a time when the supply of consumers' goods is decreasing. Mr. Henderson himself has been tireless in urging the extension of rationing, and drastic increases in taxation. He has incurred the wrath of the labour unions by steadily opposing wage rises. Nor are his powers adequate. There is as yet no control of wages, and the regulation of agricultural prices is specifically excluded from the province of O.P.A.

The impossibility of keeping a lid on prices without mopping up excess purchasing power is increasingly realised by the general public. The July issue of *Fortune*, for example, contains an article on "General Max" (the General Maximum Price Regulation), in which the case for heavy increases in taxation and forced savings, accompanied by rationing, is put with great force. A companion article describes the system of price regulation in Canada, and in a table, which is reproduced on the next page, the serious lag of American direct taxation behind that of Britain and Canada is set forth.

The fact that the need for controlling inflationary movements is at bottom the same in every country at war makes a comparison of the progress made in Britain, Canada and the United States both interesting and instructive. National differences and the pressure of events have made each country approach the problem in its own peculiar way. Britain has had three years in which to devise means of dealing with the "inflationary gap". Dependence on imports made rationing inevitable from the first; it was a political and physical necessity. Heavy increases in taxation, subject to post-war credits, and voluntary savings have been the main instruments by which it was hoped to control price rises, and no effective step has been applied to wages. Price control, as such, has only been piecemeal. Although the Treasury has undertaken to stabilise the cost of living there has been no movement to make the freezing of prices the main weapon

against *inflation that it is in* Canada and the U.S. Prices of essential foodstuffs have been held down by maximum price orders and the granting of subsidies; some raw material prices have been controlled, and recently with the creation of standardised lines in such articles as clothing and crockery, it has been possible to attempt regulation by the fixing of profit margins for manufacturers, wholesalers, and retailers, and the setting up of price ranges. No attempt has been made to fix prices of armaments, but the control of production costs has been tightened, and E.P.T. has put an effective ceiling on profits. By the increase in subsidies, the Treasury has been successful in stabilising the cost of living index over the past year

Such success as Britain has achieved has in part been due to the bleak necessity of cutting its coat according to its cloth; and Britain enjoys certain distinct advantages over countries like Canada, and particularly the United States, in the imposition of controls. Britain is a far more compact administrative unit, experience derived from the last War has been invaluable, particularly in rationing; the Civil Service in this country is much more highly developed and prepared to administer the controls of consumption. Even so, the rising tide of wage demands may still overflow the barriers which have so far prevented a runaway inflation.

* * * *

The Canadian "Squeeze"

Canada lies halfway between Great Britain and the United States in the sphere of price control. Although Canada had been at war for two years, it was not until the autumn of 1941 that the rise in the cost of living threatened to become unmanageable. There was more time to make the adjustments to a war economy than there has been in the United States. Canada was better prepared psychologically for drastic measures On the other hand, there had been no noticeable reduction in consumers' goods, such as has been experienced in Britain In October 1941, however, the cost of living index had risen to 115 from 107 in March; the national income at about $6,000 millions was $2,000 millions greater than it had been before the war; and it was increasingly obvious that, despite sharp increases in taxation, purchasing power was outrunning the supply of goods.

The Canadian solution was simple, drastic, and so far as it has been effective Mr. Donald Gordon, Deputy Governor of the Bank of Canada, was given power to freeze retail prices, including the prices of services, and wages at existing levels. A provision for wage increases of 25 cents a week for every point rise in the cost-of-living index was included, but it has not been necessary to invoke it. The "squeeze" resulting from the fact that increases in wholesalers' and manufacturers' costs were not yet reflected in most retail prices was absorbed by agreement between the manufacturers and retailers In general, the manufacturer absorbed 50 per cent., and the rest was divided between retailer and wholesaler. Costs were cut by drastic simplification and standardisation Deliveries were reduced, fancy packaging outlawed, the number of styles and models was cut. No ceiling was imposed on goods for export on war goods. The greatest danger to Canadian price control lay in the dependence of some

industries on raw materials imported from the United States, where prices were rising steadily There were also a few industries where costs could not be cut sufficiently to permit the industry to operate under its ceiling. For these special cases, subsidies were instituted, but so far they have been insignificant in amount—only $2,128,981 for the period ending on April 21, 1942—and provisions exist for the recapture of subsidies which prove unnecessary.

"General Max"

The Canadian price control experiment was watched with the greatest interest in the United States, and "General Max" admittedly follows the Canadian model in many respects. This is as Canada hoped, for the success of Canada's system of control depends primarily on keeping down the subsidies required by industries dependent on imports from the United States. Like Canada, the United States froze prices of goods and services as at a given date—the highest level reached in March 1942. But in two essential respects the powers of the Price Administrator were more limited than in Canada. Wages were not included, nor were prices of unprocessed farm products. At least 30 per cent. of the average food bill is thus excluded from the cost-of-living controls. In another respect, the scope of price control is far greater. The O.P.A. was given powers over prices entering into military production, such as parts and machinery, and it is said to be at work on price schedules for finished military equipment. But the Services have not been sympathetic to price regulation, which, in their view, deprives manufacturers of incentives to increase production.

The unwillingness to put an effective stop on wages is evidently the greatest danger to a system of control where prices are based on wage rates paid last year. Mr. Henderson has testified that general wage increases, similar to that granted to the workers in little steel, would make necessary annual subsidies of $3,000 to 4,000 millions if the price ceilings are not to be punctured.

It is too early yet to reach any final conclusions about the success of the American price freeze. The precarious existence of the whole Price Administration during the last two months has not provided an atmosphere favourable to progress Already, however, the price ceilings for tinned fruit have had to be increased about 15 per cent, despite early assurances that every ceiling would be maintained. This does not augur very well for a solution of the "squeeze" on the Canadian model. The alternatives for the distribution of the "squeeze" are the absorption of increased costs within the industry (the roll back); the raising of ceilings (the roll forward); subsidies; and what may be called "hidden inflation", that is, deterioration in standards and concentration on higher price lines. Already all four are being employed by industry and O.P.A. The absorption of costs has met with success in the soap industry; subsidies have been instituted to meet increased transport costs in the oil industry; and the regulation covering women's clothing appears to be an invitation to manufacturers to abandon low price lines for those where hidden savings in materials and trimmings can recompense them for rising costs.

The form which American price control has taken is obviously

less effective than that of Canada, because of the omission of wages and agricultural prices from the regulation. The difficulties of enforcement are also substantially greater. In large measure, this is the result of the American division of powers between Congress and the Executive which all too often allows pressure groups to play off one against the other and holds up or emasculates urgent legislation. The speed with which the United States has been put on to a war footing has allowed less time for adjustment to the necessities of war. There are as yet no serious shortages of essential consumers' goods. The job of policing to be done is also much more formidable than that in Britain or Canada. There are 1,800,000 retailers, 650,000 service establishments and landlords in 366 rent areas to be kept under observation, and the enforcement staff has in the main to be built up from scratch, as there is no civil administration in existence in the 48 States which is capable of taking over the work of price control.

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Rations and Taxes

The need for other controls to support price fixing is widely acknowledged, but in the short time since Pearl Harbour very little has been achieved in the combination of rationing, taxation and saving. The O.P.A. has worked out systems for rationing a number of commodities, and the use of points rationing has received a great deal of attention in Washington. In time a great extension of rationing will be inevitable; and it would be desirable now to conserve stocks of goods which cannot be replaced. But the complexities of rationing on a continental scale are very great. A clothing ration adequate for Florida would be suicidal in a Minnesota winter; some method must be devised of reconciling hand-to-mouth buying in the great cities with the monthly or even yearly getting in of supplies by ranchers in the War West The solutions will be found probably by dividing the United States up into regional areas based on the similarity of needs and customs, but it will take time.

The most effective measure, and equally the most painful to apply lies in the field of taxation. The new American Tax Bill is still held up in Congress. But there are signs that the need for using it as an instrument to mop up purchasing power is making some headway. Most recent reports suggest that the Senate may increase the revenue it is designed to produce from $6,000 millions to about $8,000 millions. With excess purchasing power in 1942 estimated at about $17,000 millions after voluntary savings this will not do a great deal to close the gap

Neither Great Britain, Canada or the United States has been able to devise a completely satisfactory solution to the pressing need for control of wartime purchasing power. But at least the nature of the problem is no longer a mystery. The main instruments—taxation, forced savings, rationing and price fixing—have, to varying extents, been tried out in each country, and an invaluable store of experience in the administration of different measures is being built up What is needed now is the determination to apply an adequate combination of them all before it is too late.

Incidence of Income-tax

House Ways and Means Committee Proposal

Income	Single	Married: No Dependants	Married: Two Dependants
		United States	
$	$	$	$
1,000	84	..	..
1,500	171	45	..
2,500	345	219	75
5 000	875	708	540
10,000	2,295	2,064	1,800
15,000	4,221	3,914	3,586
20,000	6 621	6,264	5,856
50,000	25 316	24,840	34,296
100,000	63,646	63,072	62,416
500,000	409,621	409,012	408,316
		Canada	
1,000	88	..	..
1,500	218	75	35
2,500	475	275	115
5,000	1,333	1,000	735
10,000 .. .	3,600	3,080	2,710
15,000	6,278	5,625	5,209
20,000	9,105	8,330	7,890
50,000	28,393	26,965	26,437
100,000	64,348	61,875	61,299
500,000	411,720	401,120	400,408
		*United Kingdom**	
1,000	189	111	..
1,500	400	280	127
2,500	850	730	530
5,000	1,975	1,855	1,655
10,000	4,625	4,505	4,305
15.000	7,837	7.717	7,517
20,000 .. .	11,350	11,230	11,030
50,000	36,575	36,455	36,255
100,000	84,200	84,080	83,880
500,000	474,200	474,080	473,880

* Converted at $ 4 to the £.
Source: *Fortune*, July 1942.

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Wages Policy

The wages award to coal miners and the claim of the engineers for higher wages are reported on another page. These two episodes are very different. The coal miners have asked for higher wages because their wages are low, relative to the importance and peculiar

disadvantages of their work, and relative to the wages of other workers The engineers are making their sweeping claim, which would increase the total wage bill of the engineering industry by over £100 millions a year, on the ground that their wages are high, and should be kept high relative to other occupations, because of the importance of engineering in war production.

Together, these two developments show the imperative need, yet again, for a national wages policy. So far, there has been none and the result has been that wages rates have risen, haphazardly, desperately, anomalously and unevenly, ever since the war started. Bowley's index of weekly wage rates (1934—100) was 106 in August 1939, 121 in December 1940, 132¾ in December 1941, and 134 in April this year. There has been little rhyme or reason in the increase. The industries which have benefited most are either those whose unions have exercised the greatest bargaining power, or those which have escaped Government control for the longest time. The whole process has been sectional, without any common policy either by the unions or on the part of the Government. Each increase has tended to lead to another, either because of its effect in increasing prices or because of its effect in disturbing the traditional relationship between the rate of wages in one industry and the rate of wages in another.

The Government has not been unaware of the problems created by this scramble for increased wages. It is inevitable, in war-time conditions of full employment and overtime, that earnings, regardless of wage rates, should go up This rise in earnings, together with the uneven but consistent increase in wage rate, soon caused apprehension among Ministers about the prospects of inflation. As early as 1939, it was laid down as a principle of Government policy that wage rates should not be raised more rapidly than the cost of living, and that the cost of living should be stabilised, so as to remove the reason for increases in wages In practice, this first stage of wages policy was not successful. While attempts were made to keep down wages in war industries, that is, in those industries which came one by one under Government control, wage rates tended to rise elsewhere, wrong differentials in wage rates between industry and industry were established, or maintained, with the result that the willing movement of workers from the less essential industries to the more essential industries was impeded. By the spring of 1941, there was what was regarded as a dangerous increase in purchasing power, at a time when the amount of goods and services available for sale to civilians was increasingly curtailed and restricted In the Budget of 1941, therefore, direct taxation was extended to about five million additional wage-earners—about 50 per cent. of the total tax yield from this source, however, being set aside for repayment in the form of post-war credits. From the end of 1940 onwards a determined attempt was made to stabilise the cost of living by subsidising the price of necessities.

The Government's White Paper on wages policy, published in the summer of last year, warned trade unions and arbitration tribunals against seeking or granting increases in wage rates, which could not increase the amount of goods and services available for civilian consumption, and suggested, tentatively, the principle that increased

wages should depend upon increased productivity. The White Paper was purely advisory The Trades Union Congress was explicitly hostile to any attempt to impose a central or uniform wages policy, and, in any case, the traditional process of sectional collective bargaining by separate unions, according to their varying bargaining power, was left in tact. It was made plain that not even the Trade Union Congress had the authority to interfere with individual trade unions in wage negotiations. There was some check to wage increases For the moment, since the cost of living, measured by the official index, had been steadied, wage claims became less insistent; tribunals were held back from being generous in their awards; wage negotiations tended to be long drawn out, which in itself was a delaying factor. The upward movement in wage rates during the past six months has been very much slower than in the earlier period of the war.

Meanwhile, the Government attacked the problem from another angle Last year, rationing was extended to a wide range of additional foodstuffs and clothing; to-day, it is estimated that something like three-fifths of retail expenditure comes under rationing schemes. Unrationed goods, like tobacco, drink and many household goods as well as luxuries, are subject to heavy indirect taxation. The aim had been to prevent the extra purchasing power created by extra earnings and increased wage rates from being spent. There are many politicians and some economists who believe that the need for a wages policy, in any financial sense, has been removed; the alternative, the control of physical consumption, is regarded as sufficient.

Actually, neither the view of the Government that the inflationary process has been arrested nor the view of outside authorities that the inflationary process does not matter is very soundly based; and the purely industrial problem has been exacerbated. Wage increases have been haphazard. Anomalies have been added to the wage structure. Unskilled piece-workers tend to receive more than skilled time-workers. Heavy workers, the essential but forgotten men of the war effort, tend to be paid less than light workers. The general tendency of the Essential Work Orders was to freeze wage rates in essential occupations, while they were still permitted to rise in uncontrolled employment. There has been considerable friction as the process of mobilisation has been extended, when workers have been directed from relatively well-paid jobs to essential work in which payment has been frozen at a lower rate. From the point of view, therefore, of the war effort alone, the present state of wages is far from satisfactory. In the context of public finance and post-war industrial prospects, the outlook is little better. Immediately the disparate increase of purchasing power takes the form of anomalous differences between one family and another in the amount of free money which they have available to spend upon the few goods and services which are still unrationed; the discrepancy between soldier and civilian has become more marked In the longer run, a large volume of purchasing power has come into being, which will multiply the task of the authorities after the war in controlling demand and averting inflation during the continued scarcity of the transition period. Finally, the entire cost structure of British industry has been raised. It seems likely that the competitive position of British industry in world markets, when the inevitable decline in British income from invisible exports is taken

into account, may only be restorable by a considerable depreciation—with all the social and political consequences that this step would entail.

The recent increase in wages has indeed been far from alarming in extent The support of the trade unions for the war effort has not been jeopardised by friction over remuneration. It is probably this consideration which has been most influential in determining the Government's decision to have no wages policy. Nevertheless, the remarkable claim which has just been entered by the Amalgamated Engineering Union should be regarded as a sign that the test may still be to come. In present conditions there is no reason at all why the engineers should not make this claim, in order to retain their differential above other workers in the wage structure There is no reason also why other unions should not make similar claims in order to maintain or advance their relative stations. Each union is free to make the best bargain it can; and the engineers' claim may well be the beginning of a deluge which, during the past twelve months, has been dammed up by the effects of the White Paper and by the transition of the nation's workers from peace to war work. The need for a wage policy, decided by the Government and agreed by the Trade Union Congress, was never more urgent.

It is easy to state, in general terms, the principles which it should be sought to apply. First, every wartime wage increase, except those designed to remove real hardship, should be intended to provide an extra marginal incentive to additional war output. That is to say, the principle should be payment by results, in terms of war effort; and it is perhaps a pity that the recent award to the coal miners, which *did include an additional bonus to coal production over a standard set* for each pit, did not tie coal wages more closely still to increased coal production The second objective should be to remove all anomalies which are obstacles to the war effort. Only if the right kind of relative wage level, as between skilled and unskilled workers and as between essential and less essential work, is established, will wages serve as an instrument of war. The labourer is worthy of his hire; but the war worker is worthier than the non-war worker. The policy should, therefore, be to restrain all indiscriminate increases in earnings, and then to introduce high incentive bonuses for war production, together with measures to enforce savings and to prevent the present anti-social scramble for unrationed goods and services.

It cannot be too strongly argued that this is not merely a matter of wages It is said, and rightly, that the effect of taxation, income tax and E.P T has been to hold back profits with remarkable success, it is plain that income-tax at 10 shillings in the pound and surtax are onerous deductions from most salaries and other incomes. Nevertheless, it is politically impossible to impose any kind of a general wages policy, for war reasons or peace reasons, for financial reasons, for industrial reasons or for social reasons, if the amount which remains to be spent out of moderate and high incomes, after overhead commitments as well as taxation have been met, if left uncontrolled; and physical rationing does not rule out comfortable and ostentatious living for those who can afford it. The only fair and reasonable condition of affairs in war-time is that expenditure as well as consumption should be rationed, by one means or another. Until this condition is secured, it will remain a very plausible answer for trade unionists to say when

the restraint of wages is proposed, that, even allowing for their larger commitments, other people have much more to spend than war workers.

The wages policy announced by the War Labour Board in connection with its grant of a 5.5 cents an hour (44 cents a day) increase to 157,000 workers in the 'little steel' companies, has provoked a storm of criticism in the United States and turned the full force of pubic attention to the relation between wage increases and the danger of inflation. Whether the five-point programme of the Board, of which unfortunately only certain extracts have reached this country, is the final and considered definition of the wage policy for which there has been so much demand may be doubted. The President, in his Press Conference, intimated that he is studying the problems of wage policy and price control and that an early message to Congress could be expected.

The first principle of the Board's policy on wages, which has roused so much indignation, reads:—

> For the period from January 1, 1941, to May 1942, which followed a long period of relative stability, the cost of living increased about 15 per cent. If any group of workers averaged less than a 15 per cent. increase in hourly wage rates during or immediately preceding or following this period their established peacetime standards have been broken. If any group of workers averaged a 15 per cent. wage increase or more their established peace-time standards have been preserved.

As it stands, this is simply a statement of fact, and hardly seems to warrant the fury it has aroused. In the absence of the rest of the text, it is difficult to judge whether reports that the Board intends to maintain real purchasing power of labour in tact by all-round wage increases are necessarily accurate. Cabled messages to the British Press report that this is the case but it is impossible to have full confidence in them in view of the errors which have crept into these cables recently, particularly on labour matters. It was, for example, incorrectly reported two weeks ago that the W.L.B. has granted the full dollar-a-day rise to the steel unions, whereas this was only the recommendation of the Board's fact-finding panel and has actually been rejected by the Board.

If the War Labour Board does in fact propose to maintain the real purchasing power of labour, it will find itself in a very short time defeated both by the realities of war economics and practical politics. It is impossible for labour's real purchasing power to be maintained at a time when the supply of goods is dwindling. If wages continue to be raised and other controls of purchasing power are not applied, consumption will simply be restricted by rising prices. More immediately, however, the Board will find itself embroiled in a first-class political fight with Congress, which has always had a hankering after legislation to freeze wages. President Roosevelt's announcement that he is to send a message to Congress shows that he has fully appreciated the storm which is brewing, and it is unlikely that he will support the extreme position the Board is reported to have taken. Whatever action the President requests will have the purpose of heading off the enactment of wage freezing legislation, dear to

many Congressmen as a means of ingratiating themselves with middle-class or agricultural constituencies.

The facts in the 'little steel' case shed only a limited amount of light upon the intentions of the War Labour Board. The contention of the Board's fact-finding panel, which recommended two weeks ago that the union should be granted the full dollar-a-day rise they demanded, was that the increase was justified on several counts: first, the 13.3 per cent increase in the cost of living since the 12 per cent. wage increase granted in April 1941; secondly, the lack of much opportunity to work overtime, which makes earnings of steel workers lower than those in other durable goods industries; and, thirdly, the fact that, as wage rates in other durable goods industries have risen, the wage advantages enjoyed by steel workers have diminished. The panel did not fail to point out that this was not a case where standards of health and decency were endangered by low wages; the grant of an increase can only be reconciled with the anti-inflation programme recently announced by President Roosevelt on the score of his intentionally vague reference to adjusting 'inequalities'

In its final decision, the War Labour Board limited the wage rise to 44 cents a day—rather less than half the union's demand. This was in accordance with former decisions, such as that in the ship-building industry, where the increase amounted to about half of what the workers would have received had their agreement, which linked wages with the cost of living, been adhered to. The dangers of these wage increases are obvious, and have not been overlooked in the Press on either side of the Atlantic. The award in 'little steel' will affect overtime pay as well as basic wages; it stimulates wage demands in other industries, and makes it more difficult for the Board to take a firm stand at any point. It is reported to-day that the steel union is now planning to demand an increase for the 650,000 workers in the rest of the steel industry; this is apparently to be limited to 44 cents a day won by 'little steel'. The queue on the Labour Board's agenda already includes the representatives of the aluminium, automobile, textile and rubber workers, who are asking for dollar-a-day increases. As is plain from this list, it is the highly organised workers who are asking for and obtaining rises, with a consequent further distortion of the wage structure to the disadvantage of the less organised.

In considering American wage policy, it should be remembered that the War Labour Board deals with only a minority of cases, the stubborn tandles which are not amendable to conciliation. Many demands for wage increases never come before any Government body; many are dealt with by the Department of Labour; the W P.B. has a finger in the pie, and has been reported to favour a stabilisation agreement for the aircraft industry similar to that in existence in shipbuilding The failure to develop and apply a consistent wages policy is in large part due to the fact that no agency has been specifically made responsible for developing a programme and given the powers to carry it out.

Comparison With Britain

The dangers of indiscriminate and widespread wage increases should not, however, be allowed to convey the impression that American labour is more extortionate in its demands or less resolved in

its patriotism than British labour. Despite the White Paper on wages policy published in Britain last summer, the principle of linking wage-rates with the cost of living has been very widely accepted as wartime policy in this country; the case for rectifying sub-standard wages was accepted, as, for instance, in the coal industry; and some unions have not been unwilling to argue that their wages should be raised to preserve former advantages in rates over other industries, or, indeed, to extend them. After nearly three years at war, Britain has signally failed to achieve a policy of true wage stabilisation; and it is hardly surprising that in the United States, where time has been shorter, the difficulties immeasurably greater, and the apparent necessity less, a very similar situation exists.

There is, in fact, a striking similarity in the relation between earnings and cost of living increases in the two countries. In the United States, the rise in the cost of living has been about 15 per cent. in the seventeen months ended in May, the rise in weekly earnings—to January 1942, the latest date for which figures are obtainable—has been about 27 per cent. In Great Britain, during the period October 1938 to July 1940, which covers the beginnings of the armament boom, and for that reason may be compared to the last seventeen months in the United States, the cost of living rose by 19 per cent., while weekly earnings rose by 30 per cent. It is regrettable that statistics of weekly wage rates are not available for the United States; the figures which have been given some currency in the British Press relate to hourly earnings, rather than to wage rates. It is, of course, true that the British earnings figures probably are more influenced by overtime than those for the United States; but it should not be forgotten that overtime has been worked for a very long period in some American industries, such as machine tools.

Much of the sound and fury over wage and union policy in the United States is due to the immaturity of the Unions and the recalcitrance of management, as well as to the prejudices and ignorance of large sections of the public. The difficulty of developing a wage policy framed in the national interest is immeasurably increased by the hostility and friction between management and labour which still persist. Labour is reluctant to make sacrifices which it feels would be to the advantage of anti-union employers; it is suspicious of the labour-baiters in Congress; and the position is complicated by the existence of two great labour organisations, the A.F.L. and C.I.O., both of which must keep a wary eye on John L. Lewis. It is his presence in the background which undoubtedly has goaded on Philip Murray to obtain wage increases in steel which would not compare too unfavourably with the dollar-a-day rise secured by John L. Lewis for the coal-miners. Any slackening in effort by the C.I.O. and A.F.L leaders would immediately be exploited by Lewis, and would create a risk of wild-cat strikes which would be damaging, not only to Murray and Green, but also to the war effort. In recent months there has been a certain amount of industrial unrest, and it is President Roosevelt's unenviable task to keep this under control, without endangering the price controls and alienating public and Congressional opinion

There are undoubtedly sound grounds for alarm at the way in which the President's anti-inflation programme is being interpreted.

These spring not only from wages policy, but also from a failure to implement the points of the programme all along the line. In this country, the dangers of an elastic wages policy have to be a substantial degree been overcome by the strict application of rationing, drastic increases in taxation and voluntary saving. As was pointed out in *The Economist* on January 17th, the British people cannot take entire credit for the restriction of consumption to which they have submitted the shipping position and the nearness of the enemy made any other course unthinkable. If similar controls were in existence or imminent in the United States, the question of wages, the activities of the farm *bloc* and other pressure groups could be faced with more confidence It is perhaps the misfortune of the United States that there is no obvious physical necessity for stringent reductions in living standards, and that the main battlefields still seem remote to many people. This makes it possible for Congress, and to a lesser degree for the Administration, to hesitate to translate the necessary sacrifices into specific and personal burdens for which they will be held responsible in November. Congressmen feel they can with impunity endanger the control of prices by refusing Mr. Henderson adequate funds for his department, they can hold up the Appropriation Bill of the Department of Agriculture, so that the farm interests can do a deal on the question of farm prices. Both the Congress and the President are unhappy about the imposition of rationing, particularly of petrol and rubber. The Tax Bill, which falls far short of what was requested by the Treasury, still lingers in Congress, which continues to tinker with the rate at which excess profits shall be taxed.

If the United States is unable to escape a large measure of inflation, the primary responsibility will not fall upon labour, but upon all groups for not realising in time that the war cannot be won on the principle of 'living as usual'.

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THE RISE IN WAGES

The sharp lesson of a rapidly mounting cost of living in Great Britain at the end of the last War, and of chronic inflation in Germany afterwards, produced at least one rule-of-thumb for war and post-war economic policy. It is that any price rise must be regarded as suspect. The rule applies to the price of labour as well as to the price of goods, with the consequence that any wage increase must be scrutinised, not merely for its industrial and social significance, but also for its relation to the general movement of prices at the time at which it occurs. If that movement is upwards, and if there is any reason to believe that the wage rise represents an attempt to overtake the price rise, then the suspicion that the two may be chasing each other up the scale of inflation is at once strengthened. The coincidence in the past few weeks of some twenty wage increases, touching practically every major branch of employment, with an unmistakable rise in the cost of living, therefore, calls for close examination.

The first wartime wage increases appeared in the last week of September, and from such small beginnings as additional payments to seafarers for new risks and to shipyard workers and steel-workers' labourers in view of the increased pressure of work, the movement spread to all branches of textile working, to coal-mining, dock labour,

the electrical trades, garment-making, agriculture and numerous miscellaneous trades. At the same time the negotiations for a rise in railwaymen's wages, which had been opened before war began, were concluded, and the engineering unions, which had in fact declared a six months' truce to wage claims after securing an increase in June, informally raised the question of revision once again.

The numbers affected by and the amounts involved in these changes cannot be estimated accurately, but such figures as are available are impressive. The rise of 8*d* per shift for adult miners and 4*d* for youths will cost £5,500,000 in a full year. Railwaymen will benefit to the extent of at least a million pounds a year as a result of the recent compromise awards of the Staff Tribunal. In the textile trades the addition of 12.64 per cent to current wages in the spinning section, 12.5 per cent. in manufacturing, 2*s*. per week for men and 1*s* 2*d* for women in dyeing and finishing, together with improved overtime rates for weavers, again involve sums running into millions. Numerous local concessions to agricultural labourers, an additional 3*s*. 6*d*. per week for electricians, 1*s*. a day more for dock workers, and rises for pottery workers, jute workers, garment-makers and others also add up to millions. The total number affected cannot be less than two million men and women and is probably much greater.

These figures, incomplete and fragmentary as they are, give rise to a presumption that such wage changes as have already taken place would have been sufficient in themselves to have had some effect on retail prices. But in fact the sequence of cause and effect has been the reverse. In a majority of instances, the increases have been granted to meet an ascertained rise in the cost of living. Outstanding among the cases in which this reason was given were those of coal-miners, textile workers and electricians. The rise in the Ministry of Labour's cost of living index by ten points in the course of September gave a statistical basis to the claims.

The central question is—are these changes inflationary in tendency? It is clear that this interpretation would hardly have been widely supported in normal times. The addition of 8*d*. per shift to miners' wages and the raising of the weekly pay of Dorsetshire labourers from 34*s* to 35*s*. would rather have been welcomed on social and humanitarian grounds than condemned as unhealthy signs of inflation. The same argument could be applied to a greater or less degree throughout the whole range of recent and contemplated changes. Nobody doubts that merchant seamen who risk their lives every day deserve some material recognition of the fact, nor that garment-workers should be compensated for the heavy strain of clothing an expanding army. But in wartime, and particularly when there is little evidence of any concerted Government policy aimed at the prevention of inflation, the tendency is to interpret wage increases not in real terms but in geometrical metaphors. Changes which might in peacetime have been fitted neatly into the upward curve of recovery now appear as the initial arc of a vicious spiral. It is necessary to examine to what extent these fears are justified.

First of all, allowance must be made for the fact that the statistical difficulties of measuring wages and prices, which make any statement of the relation between the two subject to a large margin

of error at any time, are multiplied a hundredfold in wartime. The twenty or so wage changes which have taken place since the war began represent as many different methods of calculating base rates and subsequent additions. To this must be added the fact that most increases now tend to be regarded as war bonus additions to a base rate and to collect around them new and improvised methods of negotiation and calculation. The tendency has been illustrated already in the textile trades, where several agreements have been made to assess future increases according to the cost of living. Statistical devices to take account of such complications as the substitution of women, boys and old men for those absorbed into the forces, the augmentation of skilled labour resources by means of dilution; changes in the character of work due to a swing over to munitions production; and the alteration of working conditions to provide for changes in personnel—combine to give any wartime index an air of Heath Robinsonian improvisation. Similarly, cost of living indices acquire, in addition to the limitations to which such devices are normally subject, new faults due to changes in domestic budgets through the cutting off or reduction of certain supplies, the adoption of substitutes and other adjustments. Professor Bowley has shown that a rough calculation of an index taking account of such changes gave in the last War a figure radically different from (and lower than) the usual Ministry of Labour index. In 1918, for example, the Labour Gazette index averaged 205 (base 1914 = 100) whereas the modified index stood at 180. All of these statistical difficulties add up to the conclusion that the calculation of real wages is immensely complicated by war conditions.

The results of an examination of statistical snags are not, however, entirely negative. On the contrary, they give the first practical guide to policy, which is that since wage increases based on the Ministry of Labour's cost-of-living index are likely to exceed in wartime what is justified by the actual increase in working-class expenditure, they must to that extent be checked. A second practical rule arises from the fact that, owing to the introduction of new labour and the presumed reduction of average efficiency, at least in the early stages of the war, wage rates are a more than usually imperfect guide to both the amount of the wage bill and to labour output. The practice of offering monetary "inducements" to increased output (particularly when it is indirectly assisted by Government contracts covering an excessive profit margin) is likely not merely to contribute directly to inflation, but also in many instances to fail in its purpose of securing a bigger and better output. In this way wages may again become an imperfect measure of production. It is, of course, unthinkable that all wartime needs will be met without recourse to this device. Indeed, there are social and political reasons why monetary inducements to higher production must and should be offered. But it is necessary to realise at the outset the inherent dangers of this method and to control its use accordingly. The above rules suggest only elementary correctives to the major disease of mounting prices. Like the Prices of Goods Bill, they represent attempts to hold up the general movement by checking one section of it. And, like that measure they are almost certain to fail unless they are supported by action designed to cut off the danger at its source. That source is the

Government's taxation and borrowing policy, and it is here that pressure must be applied.

If an undue rise of wages, and consequently of retail prices, is in fact to be avoided, it can only be done by radical measures. Employers must be prevented from obtaining the means to offer extravagant wage inducements, and workers must also be cut off from the possibility of obtaining wage increases which would enable them to bid up prices. This can be done first by comprehensive and stringent taxation accompanied by safeguards against the passing on of such taxation from worker to employer, from one employer to another or to Government Departments which are falling over each other for contract tenders; and secondly, by borrowing designed to absorb any real savings which may still result from genuine industry and enterprise and from the shortage of consumable goods. It would be completely unrealistic to assume that big profits and big wages will not be earned. The important point is to see that they are not spent in an unwise and disorderly manner. Taxation and borrowing may prevent this from happening. It is indeed a hard saying that the real wages of shipyard workers should not be allowed to rise during a war which follows twenty years of depression, but it is only one expression of the fact that sacrifices are required of all sections of the community lest inflation, with its even greater sacrifices, should follow. These are root-and-branch counsels, and since there is little immediate prospect of their adoption it is advisable to carry the argument to a final stage by examining a possible wage policy for circumstances in which inflation is a fact

If it is desirable to prevent real wages from rising when there is no inflation, then it is critical to see that they do not do so after inflation has begun. Yet it is imperative in the interests of national health as well as of industrial efficiency to ensure that nobody who is now on the absolute subsistence level shall be pushed below it by a rise in the cost of living. The difficulty when the general price-level is rising is to allow of some rise of wages while at the same time making sure that it nowhere gives rise to increased consumption. This can only be done by the recognition of a minimum standard of subsistence. And this in turn involves, in the complexities of wartime, that some part at least of the increases in wages given to meet a rise in the cost of living shall be distributed in the form of family allowances Once again the cure is radical. But wartime economic policy does not admit of patching and palliatives. The almost complete failure to control wage levels in the last War was due to Government and departmental reluctance to see the problem whole and to tackle it as a whole. Instead control was dragged in bit by bit until in the end attempts at regulation although numerous and covering a considerable proportion of the industrial field, were fragmentary, unco-ordinated and consequently unsuccessful. Such mistakes, with all the waste and confusion they involve, can only be avoided by radical measures promptly applied. Universal family allowances based on need will no doubt impose sacrifices in some quarters—but inflation will impose greater sacrifices on all wage-earners.

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WAGES AND THE WORKERS

That is the brutal point. The nation, as a whole and class by class, has not got to consume more, but less. There are two roads to this end One is to fix wages. The other is to let wage rates and earnings rise as the volume of work and the level of prices go up, and then to fix consumption; price rises will limit it, rationing will restrict it, the control and prohibition of raw materials for civilian use will hold it down.

The second is the path Labour has chosen By it they retain their crucial right to bargain for their remuneration. And it will be the duty of the Government, in which Labour itself holds key commands, so to plan the distribution of materials and the output of industry in real terms that civilian consumption is in fact cut down to the level required to make sure of an efficient flow of economic resources into war production.

By this choice consumption and not wages would be controlled. Its basis may be fallacious, for it is real wages, the power to buy, that count, not money wages; but its roots lie deep in history; trade unions have always put money wages first. Moreover, there is rough justice in it. The machinery of wage negotiation is kept running. The function of the individual union to look after its members' interests is preserved. The doctrine that wages can be fixed from outside is rejected. And there may be some good sense in it, too. In Germany, when war started, wages were cut and fixed. Then, to lessen popular discontent, overtime increases, bonuses, etc, were restored, while comprehensive rationing and restrictions prevented the increases from pushing up consumption.

At any rate, there is a wages policy here, where there had been none for nine months. Born in the gravest of emergencies, when unprecedented calls are being made upon the workers, and willingly answered, it is naturally not the same as the considered programme (probably on Keynesian lines) that might have been worked out in the earlier, quieter months. And if the controls are made rigid, ruthless and embracing enough, the danger in monetary terms is hardly vital, certainly not great enough to justify delay and wrangling now.

The trade unions have their way. Whatever work they are asked to do they are doing; their members and fellow-workers are filling the factories and the Forces. In return they bargain freely for higher pay—with one crucial prohibition essential for non-stop output. They must not strike in disputes, but must accept arbitration; and they are no longer at liberty to change their jobs at will. Consumption (the real crux) is to be held down by other means. War profits are to be taxed away; and the incomes of middle- and upper-class people, people whose standard of living will in any circumstances be higher than that of the mass of wage-earners, will be steeply shorn by direct taxes. It is a compromise; but in the union's eyes it is a fair bargain.

It has obvious weaknesses. It will become increasingly hard to hold down the prices of necessities, of food and clothing. There is no comprehensive labour front, no nationwide machinery or policy: bargaining is always on a craft, industrial, sectional or local basis; and a host of workers, unorganised or in weak unions, and generally

ill-paid, will tend to fall behind. The task of making sure that no one falls into hardship below the minimum standard that allows reasonable health and nutrition will be made very much harder. Schemes to subsidise food prices or, as in the new milk proposals, to furnish cheapened foods for specially necessitous categories of consumers will be both much more necessary and much more difficult.

In short, the compromise has all the defects of traditional trade union policy, the policy that, in the cause of collective bargaining and money wages, has always opposed family allowances or fostered savings. Economically, it is second or third best. But it is practicable, and if its result is to key labour up to the gigantic efforts that can alone save the Allies from defeat now, the gains will exceed the losses. The danger of runaway inflation if wages rise beyond quite narrow bounds persists; the unions have opted to risk it with open eyes. But it can be averted; and, meanwhile, it is work that will win the day.

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STABILISATION OF INCOMES

No time has been lost in implementing the Anti-inflation Bill which was passed late last week by Congress and received the President's signature immediately after. The Act directs the President to issue, before November 1st, a stabilisation order fixing wages, salaries and prices at the levels existing on September 15th. The steps already taken by Mr. Roosevelt include the appointment of Mr Justice Byrnes, of the U.S. Supreme Court, as Director of Economic Stabilisation, with complete responsibility for carrying out the provisions of the Act, the fixing of temporary price ceilings by Mr. Henderson for food prices not covered by the original Price Control Law; a new rent order; and a directive to the War Labour Board freezing wages at the level of September 15th, except for corrections of inequalities or sub-standard wages, to be approved by the Board.

The post to be filled by Mr. Byrnes approximates to the idea of an Economic High Command, which was so freely prophesied on all sides before the President's message to Congress in September. Mr. Byrnes will formulate and administer nationwide controls over rents, prices, wages, profits and subsidies, in order to stabilise the cost of living. He is to be assisted by an advisory board, made up of the heads of the agencies or departments most closely concerned. It will include Mr. Morgenthau, the Secretary of the Treasury; Miss Perkins, Secretary of Labour; Mr. Henderson, the Price Administrator, Mr. Davis, of the War Labour Board; Mr. Wickard, the Secretary of Agriculture; Mr. Jesse Jones, Secretary of Commerce; Mr. Eccles, Chairman of the Federal Reserve Board; Mr. Smith, Director of the Budget; and representatives of labour, management, and the farmers. Subject to the President's approval, however, Mr. Byrnes' authority will be complete, and his decisions will be carried out by the Department of Agriculture, the Office of Price Administration and the War Labour Board. The goodwill any man would have enjoyed on undertaking this immense responsibility will be enhanced by the excellence of Mr. Byrnes' relations with Congress,

particularly with the Senate, where, as Senator from Tennessee, he proved himself a loyal and skilful supporter of the New Deal. It is further proof of Mr. Roosevelt's political acumen that he has chosen for this delicate and highly political post a man popular with Congress and a Southern New Dealer. Mr. Byrnes was appointed to the Supreme Court about a year ago; but it has been no secret that he did not feel entirely at home in the rarefied atmosphere of that august body.

Farm Compromise

The Anti-Inflation Bill reached Mr. Roosevelt's desk without the farm *bloc* amendment, providing for a revision of the method by which parity is calculated, which had threatened to wreck the Administration plans for stabilisation. Instead, at the last moment, the Senate adopted and the House accepted a compromise, which directs the President to raise farm price ceilings when they do not reflect increases in labour and other costs which have taken place since January 1st, 1941. This is a somewhat amended version of the Administration formula, which promises to take into account increases in labour costs in fixing farm price ceilings. It bears a striking resemblance to the War Labour Board's "little steel" formula governing wage increases, which permitted them only to compensate for increases in the cost of living since January 1st, 1941.

Whether this is a genuine victory over the farm *bloc* or largely a face-saving compromise is hard to determine. If farm price ceilings are raised to compensate fully for higher labour costs, which have risen substantially, the farm *bloc* will have achieved its purpose after all. Much will depend on the interpretation and administration of the provisions of the Act. Mr. Henderson's views are well known; and it is hopeful that Mr Wickard, to whom Congress last January entrusted the defence of farm interests, recently declared himself converted to the idea of parity prices rather than the 110 per cent. of parity which for so long has embodied the ambitions of the farm *bloc*. Mr. Wickard has now been directed to keep farm prices down to the level of September 15th as far as possible.

The week-end orders fixing emergency ceilings on food prices hitherto exempt brings about 90 per cent of the nation's food under control at recently prevailing prices. Many of these have risen sharply during the past few weeks. These ceilings are to last for 60 days. Permanent ceilings will be imposed later, after an investigation to determine whether present levels are justified Most of the products now controlled are seasonal goods on which it was not felt practicable to impose ceilings earlier. A new rent order has also been issued by the Price Administrator, requesting landlords who have raised rents to reduce them to the levels of March 1st. Evasion of the rent restrictions already in force has been wide-spread, and regulations are now being drafted to put teeth into the law and prevent evictions through the sale of property.

Flexibility

The wage policy laid down in the Anti-Inflation Act and the President's directive to the War Labour Board provides that increases above the level of September 15th are forbidden, except by specific

action of the Board designed to adjust inequalities, raise sub-standard wages or to aid the prosecution of the war. Apparently this will bring to an end the voluntary wage increases which have been a most potent source of inflation purchasing power and of manpower "pirating" by employers. It greatly strengthens the position of the Board, whose decisions now cover the entire wage structure, instead of only the limited number of cases brought to it for settlement. It is also provided in the Act that wages and prices may not be decreased below the levels of September 15th—but this is hardly a live issue. The salary provisions perhaps sound more drastic than they are, and will have less effect in the war against inflation. Salaries of men and women receiving more than $5,000 a year are not to be raised unless the recipient does more work or undertakes more responsibility, and no salary is to be authorised above $25,000 a year after deductions for taxes, life insurance and other fixed obligations. There seem to be no restrictions on salary increases to those earning less than $5,000 a year, who receive the bulk of all salary payments, or on income from investments or professional services.

To speak of "freezing" of either wages or prices under the new orders is hardly accurate. The law itself and the directives which have been issued under it, all provide opportunities for the utmost flexibility and discretion in operation. In the case of farm prices, flexibility—in an upward direction—a mandatory, and the power of the War Labour Board to increase sub-standard wages. subject to Mr. Byrnes' approval, is not impaired. In itself, this flexibility is desirable. Without a certain degree of elasticity in prices and wages, and the power to increase them where necessary, production would suffer Whether the provisions will be abused depends upon the firmness with which they are administered and the co-operation that can be elicited from labour and the farmers. On his return to Washington, President Roosevelt announced that he had found the country more prepared for sacrifices than Washington or Congress. There seems no doubt that this is true. Both Mr. Green and Mr. Murray have pledged their loyal support to the anti-inflation programme. Now that a framework for stabilisation has been set up, and responsibility is centred on one man rather than on a variety of agencies, the prospects of averting a runaway inflation are improved.

The end of the process of "complementary provocation" between farm and labour incomes may be in sight. What has not yet been dealt with is the fact that the current rate of income payments already greatly exceeds the supply of goods for civilian use, at current prices, and all indications point to a very much more drastic decline still in civilian production, now that the control over raw materials is being tightened up. The Secretary of the Treasury has already spoken of new tax proposals to be sent to Congress as soon as the present Tax Bill is passed. Mr. Morgenthau mentioned a figure of "$6,000 millions or perhaps much more". This is proof that the Administration is not content with what has been accomplished, and is thoroughly aware of the urgent need of siphoning off a larger proportion of the purchasing power already in existence. Support for a programme of forced savings has also been growing, and further rationing measures appear imminent If the President and his supporters are as firm over this part of the anti-inflation programme as they have been

over the stabilisation of incomes a great deal will have been accomplished to ward off the worst dangers. The reaction of the people to the Stabilisation Bill is proof that they are ready for more drastic measures, and this assurance should strengthen the President's hand.

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LET THE PEOPLE WORK

The Chancellor of the Exchequer did well to begin his survey of the future economic policy with two warnings: that the war is not over; and that, after the war, the world will be worse, not better off. The recent rise in war expenditure is an index to the added strain that will grow as this year's offensives assume major proportions. The call for still more men and women in the Services and in war industry, and the pressing need for still more thrift in the use of shipping space and import capacity tell the same story in physical terms. After the war, there will be much leeway to be made up before headway can be made. There will be the vast task of remobilising the nation's resources of labour and capital in the new pattern of industry and trade which the changed conditions of the post-war world will demand; and, for a time, the structural unemployment that will arise from any failure to carry out this readjustment may bulk much more largely than the cyclical unemployment arising from periodic depressions to which so much attention is rightly being paid in current analyses. Britain's losses in overseas income and trade connections are hard facts. As Professor Macgregor has put it, "We are not going to have a better social and economic order, or to be in a measurable time better off, because of this war".

The point is that we shall not be better off *because* of the war. We can nevertheless be better off *after* the war if a new understanding and a new energy can be discovered, if the errors of the past can be avoided and if full use can be made of our capacity. As the problems of war have been overcome, so can those of peace. There is no excuse for pessimism. War wastes or destroys to-day's output, not tomorrow's The power to produce will remain, the labour, the land, the capital and the skill. The needs of war have been met by the full use of the nation's resources of men and machines, and by the achievement of a high level of productivity in war manufacture; and reconstruction and progress after the war will depend on precisely the same two factors—full employment and efficiency.

Full employment means more than work for all who are willing to work. It embraces efficiency. It means the fullest and most productive employment for capital as well as labour, for plant as well as workers. The idleness or under-employment of material resources subtracts from a nation's real income at least as much as the unemployment of its workpeople. It is estimated that, if unemployment had been eliminated in the inter-war period, the increase in national output might have been something like 10 to 15 per cent. per annum, plus the yield on any extra investment undertaken as a result of the high level of national income. But it is possible that the restrictive practices due to monopoly and quasi-monopoly in industry and distribution, coupled with the rigid policies of organised labour, caused an even larger subtraction from the real national income during the same

period. Withholding of capacity and the organisation of scarcity had become chronic, both at home and abroad, before the war It is a matter of history that these practices and the mentality which they bred very nearly lost the war for this country during its early stages. It is certain that, if they return, they will lose the peace.

The goal of economic policy must be the utmost efficiency, technical and economic, translated into the utmost output for consumption. The need for Britain, in search of this goal, is the utmost adaptability; and every rigidity in industrial, commercial or political life which holds back the power to produce and impedes adjustment is a deadly enemy. The task is not simply to employ all the nation's resources, which is the crude form of the doctrine of full employment, but to employ them to the best purpose.

There will be no sharp break between war and peace. In the armistice period, as Sir Kingsley Wood pointed out on Tuesday, the conditions of shortage and scarcity which produced the wartime controls will remain—and with them, in large measure, the controls themselves. The danger of inflation, if the volume of purchasing power is allowed to outrun the still restricted supply of goods, will be greater than during the war. When the process of remobilisation, transfer, re-equipment, rebuilding and restocking has been completed, under a conscious control designed to put first things first, and avoid the disorderly boom and slump which followed the last War, there is no reason why there should not be "hopeful possibilities not only of restoring but also of raising our standards of living". But, if the lessons of the last twenty-five years have been learnt, the aims of policy will not alter They will be the Maximum Output of goods and services and a National Minimum of the necessities of life, in both financial and physical terms, for every willing citizen. This will involve the maintenance of high investment and steady consumption. It will necessitate ways and means of giving priority in the use of resources to essential investment, at home and abroad, and to essential consumption. Capital is the limiting factor in production; there is no automatic abundance just round the corner. Whatever methods of control and supervision are utilised, they will entail the assumption of responsibility by the State, on behalf of the community, for ensuring, first, that the total of investment, private and public, is kept sufficiently large and sufficiently regular to maintain employment; secondly, that consumption, too, is kept high and regular by the redistribution of incomes implied by minimum wage standards and the Beveridge principle; and, thirdly, that a sufficiently large and sufficiently cheap supply of the necessities of life is made available to the public by the translation of the utility principle of war economy into peace terms.

All this is familiar ground. But the discussion which surrounds it is too often unreal. The issue is not Planning *versus Laissez-faire*. The task in each item of economic policy will be to find the method best fitted to achieve the end sought. Occasionally, perhaps, it may be State ownership. More often, it will be State control or supervision. Over a vast field of activity, it will be free enterprise, with only the rules and limiting conditions laid down by the State. Nor is the issue, as some current discussion would seem to suggest, Domestic Expansion *versus* International Trade. Full employment

in the complete sense of the term, always looks two ways, at home and abroad. It is obvious, for instance, that this country cannot, except as a purely statistical proposition, simply substitute domestic investment for its lost or dwindled overseas assets. The physical need for foodstuffs and raw materials from abroad, a need which will be increased if high employment and consumption are secured, makes imperative the necessity of importing and exporting in return, on the largest possible scale. Similarly, it is evident that, if the United States were to pursue at one and the same time a policy of high domestic investment and the Open Door policy which Britain pursued when the British national income was the highest in the world, there would be brought into being a power house for world prosperity such as has never been seen The issue is Restriction *versus* Plenty. Monopoly, autarky, bilateralism, protection and international agreements to restrain output, all are aspects of precisely the same danger. All result in the reduction of real income just as effectively as the actual idleness of manpower; and the aim of economic policy by and among the nations, if full employment in the real sense is to be sought, must be to extirpate this, too. Mr. Dalton stated right principles: "expansion rather than restriction; expansion, but not inflation; stability of prices, but not stagnation; order, but not rigidity." But the extent to which the President of the Board of Trade is apparently relying on trade associations to produce his plans for him is definitely alarming. And his reference to the wheat agreement as "a forerunner and a symbol" is, for all the relative virtues of that scheme, hardly less disturbing.

It is most certainly true that domestic and international policies have clashed and conflicted in the past. National deflation to balance international payments or to restore arbitrary exchange rates has left a trail of idle men and idle resources. National inflation to restore international trade has bred economic war and world restriction. But it is not only in the realm of theory that the most fruitful basis for international trade is the utmost expansion in each separate country, or that a necessary condition for the most productive expansion at home is the most abundant exchange with other countries. The requirement is that the policies pursued by the separate countries should be worked out in concert and tune. This requirement is probably the most pressing of all for the post-war world.

Sir Kingsley Wood showed himself alive to this need. High among the Five Propositions which he outlined was "an international exchange mechanism to avoid competitive exchange depreciation". He envisaged a system of international agreement which would render blocked currency balances and bilateral clearings unnecessary; provide an orderly method of determining currency values; eliminate speculative movements of short-term capital; and subject governments tempted to move too far towards deflation to the check of consultation with other governments (the technical implications and the difficulties are discussed in a note on page 172). This and the other four Propositions put forward by the Chancellor perhaps merit the comment "So far so good". He asked for a policy of expansion to maintain employment; the reduction of unnecessary barriers to the flow of goods from country to country; the prevention of disastrous swings in the prices of raw materials and primary products; and

the international production of investments for world development. Into these aspirations can perhaps be read the outline of a programme to apply the principles of high investment and steady consumption in both the national and international spheres. But it is only an outline. These are the right questions; what is now needed is the right answers. The task is to translate these Five Propositions into Five Policies—with always in mind that the objective is the highest possible output of goods and services for human consumption and enjoyment, and that the major crime against mankind is restriction.

The issue is between the Particularism, industrial, local, social or national, that restricts and the Communalism that seeks to serve the need of all. The problem is not to find work to do; but to take off the brakes. Professor Hutt in a recent book (*Plan for Reconstruction*, by W. H. Hutt, Kegan Paul, 320 pages, 18s) has stated it graphically:—

"The blind *laissez-faire* has given arbitrary power to trust and trade unions; the muddled *laissez-faire* which, through fear of cheapness, has forbidden the right to work and employ and so prompted the weakenings of the essence of all economic security: this stupid *laissez-faire* must be replaced by the *laissez-faire* of the economists' vision, a system under which the State operates through consciously planned institutions to protect the right of every man to produce, and to co-operate to produce, any demanded thing ..... *laissez travailler, laissez créer*."

Let the people work.

* * * *

Social Priorities

Sir William Beveridge's remarkable plan for social security is actually a plan for the security of incomes up to a minimum level. No income of any individual or family is to be allowed to fall below the subsistence standards worked out in the basis of recent social surveys. (The actual figures given are notional, "to be filled in later". They are based on 1938 needs adjusted for an assumed rise of 25 per cent. in prices between 1938 and 1945.) All the contingencies of life and livelihood, birth, marriage and death, age, unemployment, accident, illness and disease will be covered by a single and comprehensive system of contribution and benefit under State auspices. It is not an insurance plan The practice of relating premiums to specific risks is abandoned, except in the case of industrial disability, where a special levy in hazardous industries will carry with it special duties upon hazardous industries will carry with it special duties upon the personnel of those industries, employers and employed, to pool their knowledge and experience in measures for safety, rehabilitation and re-employment. It is a tax plan by which specific levies, supplemented from general taxation, will be earmarked for the specific purpose of securing a national minimum income for every man, woman and child in the community.

"Income security (says Sir William Beveridge) is so inadequate a provision for human happiness that to put it forward by itself as a sole or principal measure of reconstruction hardly seems worth doing." The assumptions upon which the Report is based are more

important than the recommendations. It is assumed that the re-adjustments of British economic policy and structure required by changed conditions will be made, so that productive employment is maintained; that the average rate of unemployment in the industries already covered by insurance will be 10 per cent. instead of the 15 per cent. assumed by the Unemployment Statutory Committee in its post-war anticipations It is assumed that there will be international co-operation in the fullest possible production and trade Sir William Beveridge argues, rightly, that the abolition of want cannot be brought about merely by increasing production, by raising the stock of goods and services available for distribution. The plan, as he puts it, is "a method of redistributing income so as to put the first and most urgent needs first, so as to make the best possible use of whatever resources may be available". But equally he would agree that the abolition of want cannot be brought about merely by reorganising distribution It may be true that the redistribution called for by the Beveridge plan could have been carried out, as he contends, in pre-war Britain. But it can only be carried out in post-war Britain if the national income is at least maintained and if heavy unemployment can be prevented, which is a basic premise of the plan. The additional charge on the national exchequer in 1945 is less than one-seventieth of what the national income may be expected to be in that year; and the total expenditure on the plan, from State grants and contributions from employers and citizens, in that year, which will be some 60 per cent. higher than the expected 1945 expenditure from these sources under present schemes, will be less than one-ninth of the national income. The cost is large. To incur it will be "an act of faith in the building up of the national income"· and the decision will carry with it the duty of taking every thought and step to maintain and increase the output and interchange of goods and services.

It is, of course, true that a redistribution of income of this kind will not be without influence itself upon the size of the national income and the rate of economic progress. On the one side, its effects will be wholly beneficial. The maintenance of minimum incomes means the maintenance of a minimum demand for goods and services. It is a method of subsidising consumption and its effect in preventing sharp falls in production and employment can be considerable. It is part and parcel of the process of making mass demand effective, to which Mr. T. Balogh referred in the letter to *The Economist* on Full Employment last week. On the other side, it raises problems which must be recognised. Sir William Beveridge has decided, contrary to the experience of almost every other country in these matters, that social security contributions should be made at a flat rate, irrespective of earnings. As he admits, this amounts to "either a poll tax or a tax on employment, justifiable up to certain limits, but not capable of indefinite expansion". The tax system of this country has already regressive features; that is, the poorest people pay more in taxation relative to their incomes than many who are better off. The contribution of 4*s*. 3*d*. a week will be no small commitment for many contributors—though it is convincingly argued in the Report that this sum is something like one-third less than the average worker already pays in various contributions to secure benefits a half or a third less extensive

than those covered by the new comprehensive plan. The addition of £125 millions to what insured persons would contribute under present schemes in 1945 is partly explained by the increase in the number of contributors and by the rise in benefits; but it is no light load. Similarly the increase of £54 millions in the contributions of employers is small in relation to the total costs of industrial production. But it adds a not entirely insignificant item to those costs at precisely the moment when the problem of exports and foreign exchange will be most acute; and, while it will be possible for sheltered or monopolistic industries to pass on the extra charge to consumers, in the case of the unsheltered and export trades upon which so much will depend in the critical post-war years, it will be the producer who bears the burden.

The cost can and should be borne. But it is fallacious to argue that the cost, in financial terms, is matterless. In a sense, finance is no more than an instrument. The ability of a nation to provide security for all its citizens depends, not on money, but on the available stock of goods and services. Plans like this, in terms of money, represent claims which are to be made upon that stock; and two principles are self-evident. First, the financial claims must not outrun the ability of physical resources to meet them; if the total of all claims exceeds the stock of goods available at current prices, there is inflation or, under tight control, severe shortages and bottlenecks. Secondly, it is a condition precedent that the stocks of goods and services itself should be brought to the highest possible size by programmes, national and international, to maintain and increase output and trade. It is impossible to say whether or not the standing claims which will be established by the Beveridge plan represent an overstrain upon post-war resources until it is known what accompanying financial claims are to be registered by the array of other reconstruction plans, for education, rebuilding, housing, redevelopment and the rest. The plan would be surely wrecked by inflation; and the provisional assumption that prices in 1945 will be no more than 25 per cent. above the 1938 level is crucial. Indeed, by creating a greater class of "rentiers" than ever before, it will give the whole community a vested interest in the stability of the currency. Sir William Beveridge specifically admits the certain need of heavy expenditure from the national exchequer on both of these purposes after the war; and it is here that the act of faith comes in. There is no doubt whatsoever that, if the national income is built up by the programmes which are perfectly practicable, and if the immense problems of world trade and British exports can be solved by a combination of national wisdom, international co-operation and individual enterprise and initiative, the minimum requirements of the Beveridge plan, which cannot very well be reduced, can be met For Britain, the problem is peculiarly plain: to secure stable consumption by the masses at a minimum level means the guaranteeing of a steady and regular flow of goods and services from home production and from overseas Full employment and the freest possible trade are imperative.

The question will undoubtedly be asked whether the plan for social security, which depends upon the greatest possible degree of adaptability by the community and by individuals to the changed economic circumstances of the post-war period, will not in itself

lessen the adaptability needed. Will the guarantee of £2 a week for man and wife, 24s. for single persons and 8s. per child lessen the incentive to work and advancement? Sir William Beveridge has been acutely conscious of this danger. It is a prime merit of his plan that, wherever possible, a premium is placed upon work. Though it is right that benefits should be indefinite in duration, lasting so long as earnings are lost or interrupted—it is an admitted injustice of social insurance as it stands that benefits are too short-lived as well as too low—the alternative of indefinite idleness would be disastrous. Benefit for unemployment, after a period, will become conditional upon willingness to train and seek other work. Old people who remain employed after the retiring age will receive higher pensions. Whether Sir William Beveridge has done enough to prevent the growth of a class of drones will be a matter for argument. A man, wife and two children will receive 56s a week as the minimum when earnings are interrupted for any cause. The difference between this figure and, say, a national minimum wage of £3 is not great. There is every case for making the sanctions proposed as positive as possible; the incentive, as Sir William himself says, must be, "to seek work and reject idleness. Freedom from want cannot be forced on a democracy or given to a democracy It must be won by them". It must be worked for.

These are the conditions of success. In itself, the Beveridge plan is one of the most remarkable state documents ever drafted. It is not revolutionary. It is based upon existing schemes and existing methods. It fuses these and produces a new amalgam—*the National Minimum*. Poverty in the past has been due mainly to two causes, to the loss or interruption of earnings and to the size of families. The plan is to remove these causes by a double redistribution, first, by a comprehensive social insurance covering all persons and all risks at adequate rates of benefit, and, secondly, by meeting family needs in every case, whether earnings have been interrupted or not. Its method is the unification of administration and the assimilation of benefits. Not every element in the problem has been equally susceptible to this logical scheme. Local and individual variations in rent make something less than sense of the uniform flat rate of benefit. The problems of industrial disability make both the uniformity of contributions and the unification of administration plainly impossible. Strict insistence on unification indeed, in other branches as well, may sacrifice, not only financial waste which must go, but also some of the local and expert knowledge and experience upon which the positive treatment side of social care depends. The provision of family allowances, which could well be instituted at once, is a foundation of the Beveridge plan. So, too, is the provision for age. The greatest of risks which Britain faces is the ageing and decline of its people. The number of men over 65 and women over 60 in 1901 was one in seventeen of the total population; in 1913, it was one in ten; in 1961, it will be one in six; in 1971, it will be one in five; and, if present trends continue, the population from then onwards will grow rapidly smaller and older. Not the least merit of the Beveridge Report is its attempt, by marriage grants, maternity benefit, retirement pensions and the incentive for old people to work, to stem this disastrous development. Its recognition of the status of married women and of the

central importance of the family are landmarks in social policy. The last words on the Beveridge Report will not be said for a very long time. But this much can be said at once: given a society in which social security at subsistence level is physically possible, this is the way to secure it. . . . .

Dickens once spoke with irony of the reformers who planned and rationalised away poverty and crime, and left in their misery Jo and Bill Sikes. He might have cocked a doubting eye at this urbane and sophisticated plan. He would have looked in vain for the fire and passion that inspired the inspectors' reports which produced the first Factory Acts. He would have asked for more in the indictment of the present system to show how men, women and children suffer from the lack, not simply of money, but of skilled attention to their human and bodily needs. Sir William Beveridge asks for the suppression of approved societies and industrial assurance, on the ground of logic and symmetry, in order to obtain adequate and inexpensive benefits for all citizens. Dickens would have asked for more passion, more fervour and more human evidence to show that these administrative changes are as necessary as they are logical. He would have asked, in short, for the makings of a crusade. Perhaps, in his sweet reasonableness, Sir William Beveridge does not wear the mien of a crusader. Peter the Hermit's script is written into this historic Report, and the true test of the Beveridge plan is whether or not it will inspire regardless of vested interests, a nation-wide determination to set right what is so plainly wrong . . . .

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Full Employment: The Aim

It is possible to ensure Full Employment for all those who are willing to work? Of course it is. The war has provided an additional and most emphatic proof that it is technically possible to set the whole able-bodied adult population to work. But it is doubtful whether any additional proof was needed. It has always been clear that work of some kind can be provided for all who want work, if its provision is given a sufficient primacy over the other objects of State policy. The catch, of course, is in the proviso. It has always been known that Full Employment could be had at a price. What has once more been proved in the last three years is that it can always be had at the price of war. But can it be had cheaper? In particular, is it possible to secure Full Employment at a price that a peaceful democracy can pay—that is, without war or dictatorship? There can hardly be a more important question or one which the prophet, if he is an honest man, will answer with more hesitation Yet the whole prospect of the next few decades turns on the answer. For if one thing has been made abundantly clear, it is that the mass of people in every country rate Full Employment, and the individual security it brings, higher than almost any other political object. If liberal democracy is not compatible with Full Employment, then it is liberal democracy that will go; and plans for the future will have to be laid on the assumption that the principles of Fascism (or conceivably of authoritarian Communism) will win the peace, whoever wins the war. Clearly it is a question that deserves the closest examination.

What, in a peace-time context, is Full Employment? Full Employment does not mean the total disappearance of the unemployed. As usually understood, it is quite compatible with the continuance of "normal minimum unemployment"—that is, the stage army of men and women who are changing their jobs and drawing benefit for a week or two in the interval. Indeed, it is imperative for the elasticity of the national economy that there should be a substantial degree of mobility of labour, and not every change of job can be expected to be accomplished between night and morning. Full Employment is also compatible with a certain degree of seasonal employment. This is not to say that seasonal unemployment is not an evil which should be eradicated if at all possible—but its causes are different from those of mass unemployment, and the cure must also be devised on special lines. There is another kind of special unemployment which cannot be excluded so easily. This is the so-called "structural unemployment", the unemployment that creates Depressed Areas. To put this on one side and to say that there can be Full Employment and Depressed Areas at the same time is to invite ridicule; yet its origins are special. Britain might have been wildly prosperous in the 1920's —and there would still have been unemployment in the cotton towns of Lancashire and in the mining valleys of South Wales. But there would have been less unemployment, and all but the old and the immobile could have found work elsewhere. It would be a fatal mistake to try to argue away the aspect of unemployment that has bitten deepest into the national memory; perhaps the best working definition of Full Employment is to say that it will have been attained when (*a*) the register of unemployed does not exceed about half a million, and when (*b*) any pockets of continuing unemployment that may arise in particular areas or industries are quickly drained away. If such a state would not represent perfection, it would at least be a great improvement on the 1920's and 1930's and—what is all-important—a solid enough basis to enable the democratic community to turn its attention to other matters, such as life, liberty and the pursuit of happiness. In essence, the problem of Full Employment is the problem of the trade cycle.

Within the last few years there has been a notable confluence of opinion on the causes of cyclical depressions of trade. The old joke about the inability of economists to agree may, or may not, have been justified in the past. It is certainly untrue to-day. Virtually every serious economist, in every country, is agreed on the main outlines of the diagnosis, and there is even a substantial measure of agreement as to the cure.* A depression occurs when the community spends less money than is needed to buy the whole of the output of which it is capable. There is no permanent and inescapable tendency for the community to behave in this way (which is the

* A book which is at once a striking illustration of the degree of international agreement and an able exposition of the thesis is Professor Alvin Hansen's *Fiscal Policy and Business Cycles* (Allen and Unwin). Professor Hansen writes in an American context, and he lays undue emphasis on one aspect of the matter—namely, the invigorating effects of a Budget deficit. This leads him to misunderstand recent British economic history. But, on the main essentials of policy, his book shows how completely, within the past twelve years, the drift of American, as of British, thought has been diverted into new channels.

mistaken assumption that the cranks make) The present is plainly a period when the community is manifestly trying to spend more than is required to purchase the whole of the output of which it is capable There are very few commodities to-day for which there is not an urgent, clamant market; and there have been similar periods of all-but-universal seller's markets in time of peace as well as in war. But from time to time communities *do* get into depressions; they *do* spend less than is required to buy their output. When that happens, it is because, in the jargon that is now familiar, Savings are in excess of Investment. The community is trying to save in money without saving in real terms; it is trying to enrich itself by amassing claims on itself rather than by accumulating physical property of lasting value.

This diagnosis, to repeat, is now very generally accepted. What is the cure? Broadly speaking, if the community is under-spending, any increase in spending would improve matters. At the bottom of a depression, the state can reduce unemployment *by* giving consumers more money to spend, either by a direct subsidy, or by putting a few million young men into uniform and giving them Army pay. This line of attack is perfectly feasible. Indeed, in so far as there is reason to believe that a modern community has an inherent tendency to Save more than it can Invest, the encouragement of consumption at the expense of saving is a sound long-term policy. But if the depression arises because of a deficiency of Investment (that is, broadly speaking, of capital construction), the direct way of meeting it would be to increase Investment There are four solid reasons why a policy of increasing Investment is preferable, at least in the short run, to one of subsidising consumption (*i.e.*, of reducing Saving). First, an Investment policy can, within limits, be turned on and off in accordance with changing circumstances; a subsidy to consumption, or any other direct grant to the people, once given, would be very hard to withdraw. Secondly, a given amount of money spent on increasing Investment is likely to have a larger ultimate effect (in technical language, the multiplier is larger). Thirdly, if there are to be subsidies for consumption, only the State can provide them; but it can induce others, as well as itself, to expand Investment. And fourthly, an increase in Investment is more "natural", in that it responds to the individual acts of choice that led to the Saving; it is, therefore, likely to be more stable.

The first pillar of a Full Employment policy must, therefore, be an Investment policy. Mass unemployment can be prevented if the community's annual Investment can be made both *large enough* to embody the total of Savings, and *regular* from year to year. That this is not merely the recrudescence of the old "public works" doctrine will be made clear in a second article, which will analyse the means of achieving the aim of Full Employment; a third article will attempt to work out the cost.

* * * *

Full Employment: The Means

In the first place, the problem of Full Employment is essentially the problem of the trade cycle. Not all forms of unemployment, it is true, are the products of cyclical depression. "Normal minimum" or

the so-called "dynamic" unemployment is an inevitable concomitant of the mobility of labour; seasonal unemployment is as great in years of good trade as in years of bad; and the unemployment that arises from the decay of individual industries is another special—and grievous—case. But the two former could easily be cared for, and the third would be vastly alleviated, if it were possible to avoid the much larger and more widespread unemployment that comes with trade depressions; and it is with these depressions that diagnosis and cure must chiefly concern themselves. Secondly, the way to prevent recurrent depressions is to secure that the community's Investment in concrete capital goods is both large enough to embody its Savings and regular in volume from year to year. Full Employment could be secured by state subsidies in aid of consumption in bad years; but there is a variety of practical reasons for preferring a policy of stabilising Investment.

One of the most important of these is that, in subsidising consumption, only the state can act, while in stabilising investment, it can stimulate the activities of others. This is a vital distinction. If the whole burden of maintaining investment were thrust on the state, the task might well be beyond its means, even in these days of enormous budgets and swollen administrations The state, as an investor, is subject to a large number of limitations. It has difficulty in entering the field of competitive industry, and these difficulties do not arise solely from the jealousies of private capitalists. So long as there is any form of activity, publicly or privately owned, which is expected to pay its way, it will naturally resent and oppose the breeding of subsidised competitors. Heavy investment by the state would lead to an inflation of the national debt and to all the difficulties, real or imaginary, that arise in consequence. These will be the subject of a third article, but it may be interposed here that there are reasons for being more distrustful of public debt than of private debt. The state's difficulties in entering competitive spheres naturally lead it to concentrate its "public works" in fields that are not financially remunerative, such as public buildings, roads, bridges and the like. These things are necessary and desirable and they yield non-monetary dividends; but if too much of the community's savings are invested in forms that yield no money return, there will be trouble. The individuals who save do so in the expectation of monetary return on their savings. A man who has saved all his life cannot live on the magnificence of the local Town Hall or on the smooth directness of the nearest by-pass. If the standard of material living is to maintain its steady rise, it is essential that as much as possible of the community's savings should be invested in forms that will yield a tangible and material dividend in the future and that is what any state short of the totalitarian has difficulty in doing. Totalitarianism is, indeed, the ultimate end of a "public works" policy, for if any departments of the community's economic life are to be kept independent of the state (whether or not they are collectively owned) it is imperative that they should be constantly reinforced by a stream of new capital investment.

All this is not to say that the state should never engage in capital construction on its own account—on the contrary, there is an inescapable obligation to do so if the alternative is a cyclical depression—

but it is to say that "public works" should be regarded as a very poor second best. The primary object of an investment policy should be to see that private investment is kept steady at a high level, and only if that fails to close the gap by "public works". The word "private" is used here to cover investment by any persons or institutions which are financially independent of the Exchequer. A public corporation such as the Central Electricity Board or the London Passenger Transport Board is, in this sense, "private", and the doctrine that the main reliance should be on the stimulation of "private" investment is in no way in conflict with the spread of public ownership. On the contrary, the more public corporations and boards there are, the more influence the economic policy of the Government can be expected to have on the total of non-state investment. Central control over the timing of capital expenditure by these bodies is a point that should be remembered in drawing up their constitutions.

The overwhelming importance of private investment can be illustrated by a few figures. In 1938, out of a net national income (at market price) of £5,040 millions, the total of private net investment at home and of private and Government net investment abroad was £351 millions. But, in a rearmament year, a sizeable proportion of the Government expenditure at home must also have been on capital goods; this cannot have been less than £150 millions, bringing the total to £500 millions. But these figures are all "net"; they exclude the expenditure necessary to maintain the existing capital of the country. Obviously, for practical purposes, it is impossible to distinguish between a machine that represents a new investment from one that is to replace an old machine; and for the avoidance of unemployment it is as important to see that the money set aside in depreciation funds is all spent as to see that the money set aside as savings is all invested So, to get an idea of the dimensions of the problem, it can be said that in 1938 the British community spent about £900 millions on capital goods, £500 millions of it from savings and £400 millions out of depreciation funds. But even this sum was not enough to secure full employment; 1938 was a year of only middling trade. From what has happened since, it seems likely that the net national income of 1938 would have needed to be about 10-15 per cent. higher to ensure full employment; at a guess, about £250 to £350 millions more of expenditure on capital goods might have been required to secure this. These figures are only rough, but their order of magnitude is right. At the price-level of 1938, the requirement for full employment was that from £1,150 to £1,250 millions—say, £1,200 millions a year—should be spent on capital goods. This would represent approximately one-fifth of the gross national output (that is, including the maintenance of capital).

This figure is very much larger than is usually realised, and its magnitude serves to illustrate why it is that attempts by Governments have in the past so frequently failed to produce any effect on the state of trade. Mr. Lloyd George's proposals a dozen years ago envisaged the expenditure of £200 millions, and though this was considered to be an impossible large sum in terms of the public finances, it was obviously too small to exercise any dominant effect on the conjecture. The American equivalent to the British figure of

£1,200 millions would be something like $20 or $25 billions, and Mr. Roosevelt's peace-time deficits of $4 or $5 billions, for all the shouting they provoked, were obviously not in proportion to the problem. Indeed, the quantitative approach provides a clear illustration of the importance of private investment. When the required total is £1,200 millions, a "public works" programme of £200 millions may easily do positive harm, if the circumstances of its announcement are such as to create an atmosphere of alarm and frighten the private individual or institution with money to lay out.

The main endeavour of a Full Employment policy must, therefore, be to maintain a large and steady volume of expenditure on capital goods by persons and institutions other than the Exchequer itself. How can this be done? The instrument that comes most readily to mind is, of course, the rate of interest, and it is certainly to the public advantage that, whenever the volume of investment shows a falling tendency, the state should ensure the existence of large funds available for borrowing for investment at low rates of interest. So much has been written on this subject in recent years that it would be impossible to summarise it here and foolish to attempt to add anything. But though reductions in the rate of interest may, in certain circumstances, have a very powerful effect, it would be unwise to place too much reliance on them. Even the lowest rates of interest may fail to make borrowing attractive, if the risks of investment appear to be too great. This is another very large subject—on which, however, in contrast to the rate of interest, the bulk of writing has yet to be done and it is hardly possible here to do more than take note of its importance Some risks—those of war, for example,—are beyond the power of economic policy to control; but by far the largest element of risk in investment would be removed if the state could firmly establish its ability to prevent cyclical depressions of trade and its determination to do so. In this respect, nothing will succeed so directly as success.

In the interim period, however, before control of the cycle comes to be taken for granted, it is unlikely that the indirect means of influencing private investment by low rates of interest and by measure to reduce the risk element will by themselves be enough. Some more direct and positive methods of stimulating investment will be required. Much could be done by means of taxation. Thus, there is no reason why the allowances that are made from the income-tax liability of industrial companies for the depreciation of plant should be immutable from year to year. In bad years, they could be doubled—provided the whole amount were spent. Much could also be done by direct control and encouragement. A national Investment Board has hitherto usually been regarded as a means for discouraging unsound investment in boom years. But it would be still more useful as a means of encouraging and facilitating investment when the state of the national economy requires it. The greater the volume of collective enterprise, the greater should be the influence of the Investment Board, and it is by no means fanciful to look forward to a time when such a Board could, of its own motion, release very large sums for investment.

By all these and other means, the state should do its utmost to keep the volume of normal investment (including its own

expenditure on capital goods such as armaments, slum-clearance schemes or post offices) at the required level. It should not be difficult to calculate, almost from month to month, the desired figure, which has here been estimated to be about £1,200 millions a year in the circumstances of 1938. The central principle of the economic policy of the state should be to see that the total of investment exactly equalled that figure, neither more nor less. The task of preventing inflation would indeed remain in a peculiarly acute form—and to replace a chronic tendency towards deflation by a chronic tendency towards inflation would be an exchange of evils With Investment and Savings balanced at the highest possible level of employment of resources, the dangers of the nation seeking to increase its investment in monetary terms when no real increase in employment or production is possible are plain But if the total of investment showed this tendency to rise above the target, the state will surely have (it has already) plenty of effective means of arresting the tendency. If the total or investment showed a tendency to fall below the target, then—but only then—the Government should engage in additional "public works" to whatever extent might be necessary.

Almost any day now, Sir William Beveridge's report on social security, which has received more advance publicity perhaps than any other publication in recent history—its advance notices have been couched in very similar terms to those of a "super" Hollywood production—will appear. Sir William Beveridge, addressing the Fabian Society, said something about the essential background against which his proposal will have to be set. No plans for social security will be of any avail if economic security is absent. Rightly Sir William said that the maintenance of employment after the war is the most important and the most difficult of the problems of reconstruction. Rightly, too, he said that it is an assurance that the Government has effective plans for maintaining employment after the war that those now engaged on war service are, above all, looking for. A series of articles in *The Economist* discussed ways and means of ensuring full employment in peacetime conditions by state policy and direction; and a number of letters carry the discussion further. Sir William Beveridge himself did not enter into the question of ways and means; but he made three important points. First, the methods of the last peace—private enterprise without national planning—cannot be relied upon to solve the problems of demobilisation and remobilisation, any more than they would have been adequate to organise the war effort itself. Secondly, if a plan is to be pursued by which the state will undertake the responsibility of maintaining investment at the level needed to support full employment, new kinds of civil servants and new civil service methods will be required. Thirdly, and most important, the use of planning brings with it, more than ever before, the need for measures to ensure adaptability, to ensure the fluidity of resources and the absence of barriers to the transfer of men and plant from one type of work to another. The indispensable virtue of private enterprise in the past was that it provided this adaptability and, therefore, secured immense progress.

This is the real challenge to planning, the problem of combining a new measure of security for every citizen with at least the old degree

of adaptability and efficiency in the use of productive resources. *Laissez-faire* has long been abandoned because of the insecurity it brought with it; planning will fail disastrously if it cannot achieve the same flexibility in the use of resources as was achieved, more empirically, under *laissez-faire.* Oddly, Sir William Beveridge welcomed the National Policy for Industry recently signed by 120 business leaders. It is true that his welcome was only given to the "serious and patriotic spirit" in which the signatories are considering the post-war period. But it is very doubtful whether any system of rule by corporations, by which economic policy and industrial conditions are determined by the industrial interests themselves, can possibly give the adaptability and flexibility which are needed. Not unnaturally, full employment means to the industrialist—whatever professions may be made to the contrary and however honest these professions may be—the maintenance of the numbers on his particular pay roll at their present level, which is the absolute negation of efficiency and progress and another way of defining industrial stagnation. Full employment, properly conceived, means more than the crude concept of as many people as possible at work. It is more than a quantitative problem. The quality of the work is all-important, and by quality must be meant productivity. Either full employment means the maximum use of all the nation's resources in the most productive work, or it is a cloak for the most uneconomic policies imaginable.

* * * *

FULL EMPLOYMENT: THE COST

Two previous articles have outlined the policy that will have to be pursued to secure Full Employment. It was suggested that cyclical unemployment—by far the most important species of the genus—can best be remedied if the state would assume the responsibility of ensuring that the community spends on capital goods each year as much money as the public is trying to save.. This policy is, of course, familiar by now; but the scale on which it should operate is less widely appreciated. If expenditure on the replacement and renewal of existing capital is included (as it must be), then the required expenditure on capital goods at the price-level and in the conditions of 1938 would be of the order of £1,200 millions a year. To name this figure is to show that the state cannot, in peacetime, accomplish the whole task. On the contrary, the main reliance of the whole policy must be on measures that will persuade individuals and corporate entities other than the state itself to expand and regularise their capital expenditure. But when it has done as much as it can by persuasion and the inducement of others, the state must stand ready to close by its own expenditure any gap that may remain. This is the policy. It remains, in this final article, to estimate its chances of success and to enquire what risks and dangers it may run.

Fundamentally, there is only one thing that could prevent such a policy from being successful—that is, a shortage of projects of investment. It has already been suggested that there is a tendency for a modern community to save more than it can conveniently invest in physical wealth. Accordingly, as a long-term policy (not merely in bad years), it will be right from now on to lay emphasis

on consumption rather than on thrift. But though there may be a limit to what can conveniently be invested within the present institutional framework, it is ridiculous to suggest that there is a limit to what can possibly be invested. To maintain that would be to believe that the machine has exhausted its usefulness to mankind. To do no more than equip the whole community with the machines already invented would provide Full Employment for decades to come, even if the process of invention were to stop to-day. There need be no fear on this score.

A more reasonable apprehension is that only the state will have the recourses to engage in the necessary volume of investment, and that the policy of leaving as much as possible to other agencies may prove to be unworkable. This would be unfortunate and, for a democracy, might prove to be disastrous. The reasons for keeping the role of the state as small as possible (to repeat) are twofold. Large-scale state financing of investment involves the stability of the monetary system; and a gradual spreading of state control, by way of capital investment, into every corner of the economic system puts the whole community at the mercy of any political adventurer who can capture the political machine. Let there by all means be public ownership and collective control, but exercised by agencies other than the state itself. If a Full Employment policy were to lead to the very rapid growth of economic control by the state (which in this context must mean the central bureacracy, since it depends on the financing power of the Treasury), there would be cause for alarm. This is the political risk inherent in a Full Employment policy, and it needs to be very carefully watched The remedy is to execute as much as possible of the policy through private individuals, private corporations and publicly-owned bodies which are not financially dependent on the state. Fortunately there is good reason to believe that this can be done. If self-supporting business (private or public) can be assured of low interest rates and of freedom from the risk of cyclical depression, there is no reason to believe that in most years at least, it will not freely engage in as much investment as is required. The control of that investment by the state will be necessary—but that is a different and much less dangerous matter.

The second risk is the monetary one. The ultimate reliance of the policy is on the expenditure by the state and however great the stimulus to private business, there is likely to be a considerable volume of state investment, especially in years that threaten to be bad. State investment, especially if it is large, almost inevitably leads to the expansion of bank credit—that is, to the creation of money. The question must, therefore, be asked whether a policy which envisages the periodical creation of what may be large amounts of new money may not lead to monetary instability, which would not only be undesirable in itself but also, by deranging the relationship between costs and prices, would defeat the main object of keeping the national economy in balance. Economic thought has moved a long way from the days when it was believed that the price-level depended rigidly and immediately on the quantity of money in circulation. It has been proved several times in the last quarter of a century that very substantial amounts of money can be created, especially in depression years, without any effect on the value of money. But there must be

a limit somewhere. It is difficult to imagine a policy of creating large amounts of money at frequent intervals without the money thus created being sometimes used by the public to bid up prices and engender the sort of inflation that would shatter all hopes of stability. Nor will it be of any use, on such occasions, to put into force the purely monetary controls that are familiar in the text-books—restriction of credit and raising of interest rates. They will work; many an inflationary bubble has been pricked in those ways; but the trouble is that they will work too well and, in preventing an inflation, will precipitate a deflation.

The problem is whether a policy which deliberately runs the risk of inflation can avoid it without going to the opposite extreme. The answer cannot be given with any assurance. But the development of new techniques of control holds out considerable hope. The old monetary techniques were too indirect, too blunt in their action. By a direct, physical control of all investment, it should be possible to avoid any excess, without there being any necessity for recourse to deflation-provoking measures such as high interest rates. If this succeeds, if the trade-cycle can be stabilised at its top, a period of money creation should be followed by one in which it is possible to convert the excess money-holdings of the public into long-term debt of the state. This is, of course, only to change the problem from a monetary one to one of the national debt—since it is most unlikely that the state will be able to pay off debt as rapidly as it is created. But the national debt, like the poor (or perhaps as an alternative to the poor), we have always with us. It will require a solution; but is, as seems likely, its nominal amount is nearly £20,000 millions at the end of this war, the amounts likely to be added by a Full Employment policy will not change the nature of the problem. In any case, in a regime of low interest rates and high income-taxes and death duties, there is no need to be alarmed about the national debt.

There are, then, grounds for hoping that a Full Employment policy could be pursued without its defeating itself through severe monetary disturbance But the danger remains, and some instability in the value of money may have to be accepted as the price of stability of employment.

The third danger is the international one. A Full Employment policy could hardly be carried out without fairly far-reaching control over international trade and exchange. It would be necessary to prevent a flight of capital; it would be impossible to regulate interest rates or credit policy by considerations of the balance of payments; the repercussions of severe crises in other countries would have to be guarded against. It is necessary to beware of a misunderstanding of these requirements. There is nothing in a Full Employment policy which contravenes the desire for a large, expanding volume of international trade, or which stands in the way of that international division of labour on which the prosperity of all nations (most of all that of Britain) depends. On the contrary, no nation can render a greater service to international trade than to keep its own purchasing power at a maximum. Depressions are worse saboteurs of international trade than any tariffs or quotas—Full Employment is not hostile to an expanding or even to a liberal system of foreign trade. But it is incompatible with the automatic techniques of the free market. It

requires the working out of devices by which international trade can be kept under control without being restricted. There is no reason why these devices should not be worked out. But it has not yet been accomplished, and until it has, the danger will remain that the attempt to secure Full Employment at home will lead to, and be frustrated by, economic strife abroad.

The fourth danger is akin to the third, but of much wider application. There is a risk lest Full Employment should lead to economic ossification. Depressions, like wars, play their part in progress. It is no complete answer to say that the weeding done by depressions or wars is cruel and haphazard—it is no answer at all until some other form of weeding can be devised, for otherwise the garden will choke. If industry and commerce are to be relieved of the haphazard risk of cyclical depression, there is all the more reason for insisting on the necessity for the maximum volume of healthy free competition within the community. The nearer the approach to Full Employment, the greater will be this necessity. Within the sphere of privately-owned business, the demand for competition should be more insistent (and more readily granted) the closer the approximation to conditions of stable prosperity. Within the sphere of collective enterprise, the need for competition is even greater; there is no reason why public ownership should be synonymous with public monopoly.

Unfortunately, it is in this respect that the recent trend of public policy in this country gives most cause for alarm. Protection for the inefficient, stability for things as they are, restriction rather than expansion, cartels rather than competition—all these are the excusable by-products of a long period of endemic depression. But they have made a very strong impression on the patterns of political thinking, and there is no present sign of their being dislodged. It is necessary, therefore, to express the warning that Full Employment, if it is accompanied by these phenomena of economic feudalism, will be Full Employment at the cost of progress, Full Employment at the present unsatisfactory standard of living. Full Employment at the expense of welfare. The aim should be to abandon the restrictive controls, the protective barriers, as the need for them disappears. The method should be to lay down the unbreakable rule that the Full Employment policy is never, however tempting the circumstances, to be made the excuse for giving particular help to individual interests. But these things will require a revolution in the political order of the moment.

The difficulties of Full Employment are, then, not those of attaining it, but of the companions it will bring with it There is good reason to believe that it can be secured without making the state totalitarian without debauching the value of money, without causing strife abroad, or stagnation at home. But these are affirmations of faith, not evidences of truth. One of the two main tasks of democratic statesmanship after the war will be to demonstrate their truth.

* * * *

Two Nations ?

It is a commonplace that a luxury, in the popular view, is unnecessary spending by the other fellow. It is certainly true that no one likes to admit that he is financially able to buy luxuries;

there is, in fact, an extraordinary coyness about the rich and the well-to-do. From 1931 onwards, but particularly since 1939, there has been a sort of competition among people of the higher income levels to claim that they have reached the poverty line. The social surveyor of a hundred years hence who reads of such statements as Lord Wardington's—that a rich man to-day has no penny left after paying his taxes and commitments to buy a crust of bread—and then studies Lord Wardington's household accounts will be perplexed. This apparent shame in being wealthy was responsible for a passage of arms in a recent House of Commons debate on wages policy between Mr Benson, Labour member for Chesterfield, and one or two Conservative members Mr. Benson, whose contributions to debates on economic and financial policy are invariably refreshing and apt, was making the point that though increases in wages may defeat the wage-earner's own ends, it hardly became Conservative members to demand wage freezing in wartime, when the law of supply and demand works to the advantage of wage-earners, without stopping to think whether it should not apply in peacetime as well—and to all classes of society. In the course of this speech he made the incontrovertible statement that, in spite of the high taxation on big incomes, the relative standards of comfort of the various classes of society are little changed. But he was immediately challenged by two Conservative members, and in the ensuing exchange one of them—a colliery director, incidentally—first of all made the extraordinary comment that the average miner can afford to buy lots of things which a rich man cannot, and then, when asked directly by Mr. Benson whether he would change his standard of living for that of a miner, hid behind the equally foolish statement that his standard of living had changed very much while he saw miners getting twice as much as they did before the war. Does it not occur to people like Mr. Wragg and Sir Archibald Southby that their club subscription alone—unavoidable commitments?—would keep a miner's family for some weeks?

> "It's a weary remarkable circumstance, sir," said Sam, "that Poverty and oysters always go together."

Mr. Benson's argument does not, of course, mean that labour would be justified in doing all in its power to use its wartime opportunity to obtain a permanently larger share of the national income. But it does mean that when the not so poor are compelled to close their country houses—or cottages—dismiss their servants, lay up their cars and decide not to enter their sons for Eton, they might refrain from self-pity and spare a thought for those millions who have not more than a week's paid holiday in a year—if that— even in peacetime, who leave dingy homes to work—if they are lucky enough to have a job at all—an eight-hour day and a six-day week, even in peacetime, whose children leave school at fourteen to become a supply of cheap labour Let them stop pretending that to-day it's the poor that has the pleasure, so its earnings must be controlled—an argument which is as irrelevant to the economic issues involved as it is false. And let them not be ashamed of being rich, if their wealth has come to them by their own talents and exertions.

* * * *

[Three articles in *The Economist* on October 3rd, 10th and 17th discussed the possible ways and means of securing full employment after the war for all those who are willing to work They aroused a good deal of interest, and a selection of letters from correspondents was published on November 28th The article which follows is intended to sum up the discussion so far as it has gone.]

The three earlier articles on Full Employment attempted to summarise, with dogmatism that is necessary for brevity, the present state of informed opinion on the prospect of maintaining Full Employment after the war. The arguments of these articles can be recapitulated, with even more dogmatism and brevity, in seven propositions:—

1. Though there are several distinct varieties of unemployment, it is the mass unemployment caused by cyclical depressions which presents the most important problem.

2. Cyclical depressions arise, in the main, from lack of balance between the voluntary savings of the community and its expenditures on the maintenance and increase of physical assets.

3. The method of preventing this periodic lack of balance between Savings and Investment should be the control of capital creation, with a view to making it both regular and also large enough to absorb the savings of the fully-employed community.

4. In pursuit of this policy, the state should give priority to the stimulation of capital investment by "remunerative" enterprise (whether publicly or privately owned) and to its own "necessary" investments (defining as "necessary" those that are called for by policies other than that of maintaining Full Employment). Only when these expedients are exhausted should the state embark upon "unnecessary" and "unremunerative" public works.

5. The magnitude of the problem is larger than has been generally recognised. In the conditions and at the prices of 1938, the volume of expenditure on capital goods (including maintenance expenditures) by the public and|or the state, would probably have to be of the order of £1,200 millions a year to ensure full employment.

6. In stimulating "remunerative" investment, indirect controls, notably through the rate of interest, are likely to be inadequate; and direct methods, such as guarantees against risk and adjustments of taxation, will have to be employed.

7. There is no reason to fear that, by these means, Full Employment cannot be attained. The need for skill and vigilance is to ensure that it can be attained without bringing other evils in its train, such as economic and political totalitarianism, inflation, economic conflicts between states and protected monopolies within them.

The intention of these three articles was not to propound any new theory, but simply to sum up the present state of the debate and, if possible to demonstrate the measure of agreement that has been attained. The discussion that followed upon the articles—of which some examples were printed in the issue of November 28th—was the most complete fulfilment of their purpose.

It is not intended in the present article to traverse the ground afresh, and still less to attempt a detailed answer to the criticisms that have been voiced. Few, if any, of the critics were in serious

disagreement with the line of argument advanced. But their comments did throw up one or two points which might affect the task of securing public acceptance of the policy outlined; and in a matter as important as this, it is worth the effort necessary to ensure that there are no avoidable misunderstandings.

The three letters which were printed in the issue of November 28th were deliberately selected to illustrate the three main categories of critics—the Totalitarians, the Theorists and the Die-Hard individualists. To all three, however, there can be given the answer that they have missed an essential point. It is possible to agree with the Totalitarian that Full Employment could be more easily reached and more surely maintained if the state exerted complete control over public consumption and over the mobility of labour. But the object of *The Economist* articles was to inquire in what conditions Full Employment could be secured in a democratic community. With the Theorist, the disagreement is marginal and small, and can be explained by the fact that the attempt was to work out, not merely the theory, but the practical politics, of a Full Employment policy. And to the Individualist, whose hair stands on end at the thought of some of the dangers of a Full Employment policy, the answer can be given that the practical question for the present day is *not* whether we ought to try to secure Full Employment, but what will happen when we do.

Most of the criticisms that were made, from the totalitarian standpoint, in Dr. Balogh's letter were founded on misconceptions. Thus the whole of his first chapter was founded on the assumption that *The Economist* accepted Professor Hansen's American views as applying to Great Britain—although the first article said, in so many words, that "Professor Hansen writes in an American context..... This leads him to misunderstand recent British economic history." Lest anyone else should be suffering from the same misapprehension, let it be stated with all necessary emphasis that *The Economist's* arguments were neither predicated upon the existence of, nor designed to maintain, a *laissez faire* economy. Dr. Balogh had even less justification for his curious belief that *The Economist's* intention was to secure "the minimum of interference with private enterprise" or to prevent "any consciously planned reconstruction." The original articles twice specifically stated that the preference for stimulating "remunerative" investment over "unremunerative" public works was not to be interpreted as involving a preference for private over public ownership; they also said that there was "an inescapable obligation" on the state to engage in capital construction on its own account, and expenditure on such things as slum-clearance schemes was included in normal investment.

Underneath these misconceptions, however, there is a point of real substance. The disharmony between savings and investment can, as a matter of theory, be corrected by operating either on savings or on investment. There is some (though not conclusive) reason to believe that there is what Dr. Balogh calls "a tendency to over-saving at a given rate of interest"—that is, that at any rate of interest a modern community will tend to save more than it can invest. If so, the remedy should be for the state to encourage such a redistribution of income as would diminish the volume of saving. It so happens

that the policy that would reduce the inequality of incomes would also assist the cause of economic stability. This was explicitly and repeatedly stated in the articles. But it is a long-term policy, designed to increase the permanent health of the community, and not one that can be speeded up and slowed down from year to year. At present, the difficulty is that the volume of saving, though relatively stable, is (probably) too high, while the chief defect of the volume of investment is that it is unstable, being too high at some times, too low at others. Deliberately to destabilise savings in order to match the fluctuations of investment would obviously be foolish. This was the reason for suggesting that the *short-run* policy should be to operate through the volume of investment—*not* any desire to impede the redistribution of incomes. If it could be shown that Full Employment in a democratic community could only be secured by perpetuating inequality, then there would be cause for despondency. Fortunately, the reverse is the truth.

The point that the Theorist, Mrs. Robinson, makes is one of perfect theoretical validity In theory, any investment, state or private, tends to lead an expansion of credit and an increase in the potential or actual money supply. But the argument was practical, not theoretical. A large and continuing state deficit creates money in a form which, for practical and institutional reasons, is more dangerous than the money created by private investment. Possibly it is unreasonable for the public to draw the distinction—but it is drawn. In theory, there is no reason why there should ever be an inflation—but inflations do occur, and a policy which places less temptation in the way of an untheoretical public is *pro tanto* preferable. But the point is not an important one.

Finally, there is the Individualist case, which can be summarised in the statement that if a policy designed to secure Full Employment involves any danger of infringing the principles of John Stuart Mill, it would be better not to run the risk. As one City Editor puts it "What has always stood in the way of full employment in the past has been the fear of a large deficit in the balance of payments" and another went so far as to accuse *The Economist* of being "willing to pay the price of unemployment in other countries in order to abolish it here" (would he accuse *The Economist* of also advocating dictatorship, inflation and monopoly, since these were the other dangers pointed out?). The argument whether a country which, in the course of *successfully* achieving Full Employment, places controls on foreign trade, does good or harm to other countries is an interesting one—for another occasion. To argue it now would be beside the point. It is not a question of *The Economist's* preference for Full Employment *versus* the City Editor's preference for full exchanges. There is no option; it is Hobson's choice. For any form of government in the industrial democracies in the fifth decade of the twentieth century, it is a categorical imperative to do whatever is necessary to prevent mass unemployment. And in any case, the suggestion made here was not that the price of economic conflicts should be willingly paid for full employment, but, on the contrary, that care should be taken so to devise the policy that, if possible, that price would *not* have to be paid.

But the digression into controversy has already taken up too

much of this final article, whose purpose was not rebuttal but summing up. The aim of the original articles was to crystallise the present state of opinion, in the belief that the main structure of an agreed and practicable policy already existed. The comments that have appeared, both in *The Economist* and elsewhere, bear out this contention. Where they are not based on complete misapprehension of what was said, they deal with points which can reasonably be regarded as subsidiary. It would seem, therefore, that the construction of a policy can continue. The next step should be the appointment of a Royal Commission of the necessary standing and authority to work out the details—economic and political—under a chairman whose name would carry confidence. Perhaps it is another job for Sir William Beveridge.

* * * *

Three recent articles in *The Economist* on October 3rd, 10th and 17th discussed the ways and means of ensuring full employment for all those who are willing to work. It was argued, in some detail, that mass unemployment can be prevented if the community's annual Investment (by private enterprise and, to the extent that private investment falls short of the desired level, by the state) can be made (*a*) large enough year by year to take up the total of annual Savings and (*b*) regular from year to year. Three letters are printed below which represent reasonably well the several views expressed in the many comments which have been received. *The Economist* would never claim that its reasoning in this novel field of political economy and applied statistics can claim anything like finality. If the articles have, as one correspondent put it, "enabled the discussion to be carried a stage further," they have done their work; and nothing has yet been said to upset the validity of their general thesis.

To THE EDITOR, *The Economist*,

Sir,—The following comments are offered on the three thoughtful articles published in *The Economist* on "Full Employment":

1. *Importance of the Problem.*—The first article was written largely under the influence of Professor Hansen's "Fiscal Policy and the Business Cycle." American problems are not altogether English problems, or, indeed, European problems. "If liberal democracy is not compatible with full employment then it is liberal democracy that will go." It would be impossible to overestimate the importance of the solution of the problem of economic stability. Yet it might be asked whether its solution *by itself* would, in the Old World and especially in Britain, be sufficient for social and political stability confronted as we are with powerful new forces in the world.

Here we have a country grown old as an industrial country, densely populated and most probably at the end of the war a debtor country, faced with the necessity of restoring its export trade in order to maintain the standard of life now sustained, in a certain sense, by the Lend-Lease arrangement.

In America, on the contrary, we have a vast continent, self-supporting except for some raw materials and perhaps for some luxuries which, though pleasurable, are by no means essential; a continent not only vast, but blessed with the richest natural resources,

except perhaps Russia; a continent which is relatively unpopulated, where, therefore, the marginal productivity of the individual is still sustained by the relative scarcity of man as against resources. In these circumstances, it is only to be expected that the whole of the attention of the economist there is focussed on the main anomaly of the existing economic system—the periodic recurrence of unemployment, threatening to become a permanent feature of this potentially vastly rich body: thus *not merely reducing* total real income, *but reducing it with an unequal incidence,* making some people completely destitute.

The emphasis in England should be rather different. The unemployment problem has been less acute, and the growing poverty of natural resources is becoming serious, as is instanced by the present crisis in the coal industry, an industry which has been the basis of our whole economic development. In this country, I submit, attention should be given not only to *whether* resources are employed, but also to *how* they are employed. Professor Hansen, together with other American economists and most English economists, have as yet refrained from investigating more closely the working of the actual, in contrast to an ideal, economic system under individualistic capitalism. Professor Hansen, in a book of over 450 closely printed pages, has not a word to say about imperfect competition or monopoly. It is assumed by him that what expenditure private consumers and entrepreneurs themselves decide upon is well decided upon and spent in the most economical fashion.

Nothing would be falser than to accept this picture, which completely excludes the most burning problem of modern economics, the economics of corporation and *quasi*-monopoly. These tendencies are found not only where there are trade associations and some sort of quota allocations, not only in fields in which large-scale competitive advertisement dominates the field, establishing small separate markets for each firm, but indeed in those other fields which the layman and most economists are inclined to regard as typical of free competition—the field of retail trade, for instance, where tacit agreements, dire experience of the results of price-cutting and special human relations between customer and salesman prevent free competition from becoming effective. The myth of production being extended until the point where profit disappears does not bear examination. Yet Professor Hansen and the writer in *The Economist* both accept, at least implicitly, the myth for a true picture.

2. *Causes of Unemployment.*—The articles deal essentially with the problem of the business cycle. It is suggested that there is a substantial agreement on the causes, as well as the cure, of business cycles. I am afraid I cannot share this view. *The Economist* articles suggest that business cycles occur because of a *temporary* breakdown of investment. In my view, the breakdown should be regarded rather as a *structural* phenomenon which makes itself felt periodically. Employment is dependent on consumption and investment. Wealthy communities suffer from an habitual tendency to over-saving. As capital intensity grows, the rate of interest must decline. Lord Keynes has shown that the rate of interest cannot, for technical reasons, continue to decline below a certain point under individualistic capitalism. Hence this trend will, from time to time,

evoke a breakdown in the investment process. During this breakdown, investment activity cannot be stimulated by the indirect method of decreasing the rates of interest, on account of increased risk. Entrepreneurs in general will only invest if the prospective profit is far greater than the rate of interest on riskless financial investment, *e.g.*, State Bonds. It is the tendency to over-saving at a given rate of interest, and the temporary breakdown of the investment process thus produced, which brings forth cycles, suggesting a periodic but temporary cause.

3. *Cure for Unemployment.*—Unemployment can be cured by stimulating either consumption or investment. Which procedure would be more "natural" depends entirely upon whether we are satisfied with the existing distribution of the national income. The state can change the distribution of income by taxation, and is already proceeding to a large extent to do so. If we accept as a duty of the state to procure a certain dirtribution of national income, that is to say, to ensure basic decent conditions for each member of the community, then, as the country gets richer, the basic minimum will increase and part of the tendency to over-saving will thereby be eliminated. Redistribution of income through "social security" (family allowances, more adequate old-age pensions, provision for the unemployed, sick and disabled) would both increase consumption and provide opportunities for investment in supplying the needs which would be satisfied from the additional social security incomes.

Investment can be increased either by stimulating private investment or by direct investment by the state. It is suggested in the first *Economist* article that stimulus to investment is to be preferred to stimulus to consumption because:—

(i) It can be applied or withheld as the situation demands;

(ii) It has a greater impact-effect on the economic system than stimulus to consumption;

(iii) Whilst investment can be stimulated indirectly, stimulus to consumption can be undertaken only by the state itself;

(iv) Finally a stimulus to investment is said to be more "natural" than stimulus to consumption as it "responds" to the "individual acts of choice."

The Economist prefers stimulus to private investment through various kinds of subsidies, increasing depreciation allowances for tax purposes, provision of cheap capital or guarantees of loans. This is all on the assumption that a minimum of interference with private enterprise and the existing distribution of income is desirable.

On the one hand, *The Economist* demands that the state should not enter competitive enterprise, since "subsidised" competition would "eliminate" private initiative in that field. On the other hand, it insists that nonproductive state investment will endanger economic stability in the long run

> as it is essential that as much as possible of the community savings should be invested in forms that will give tangible and material dividend in the future.

The writer appears to fear monetary disorders if the state, by "non-economic" investment, absorbs savings without securing any economic return with which to pay interest on the loans issued to carry out the investment, and therefore has to increase taxation.

He seems to regard the increase in the national debt, not as the obvious counter-item to the increase in national collective investment, which increases the real income of the community, but as something specifically *monetary*. There is no earthly reason (provided appropriate direct controls are introduced and provided the state does not try to provide hyper-employment instead of full employment) why there should be an increase or decrease in the *value of money* in consequence of the state deficit, any more than if the state stimulates private investment. It is fundamentally only a question of economic expediency whether commodities or services supplied by the state should be financed by "commercial' sales (*e.g.*, postage stamps) or by taxation (*e.g.*, roads or the police).

In so far as state investment is admitted at all, it is to be regarded only as a balancing element. What are the implications of this view? It implies that, once the war is over, "effective" demand should take precedence over any consciously planned reconstruction. The duty of the state is to be restricted to providing such *balancing demand* as would give full employment and nothing more. The underlying assumption is that the distribution of effective demand at the end of the war will wholly coincide with the long run interests of the community as a whole. It suggests that British reconstruction is to pay no attention to priorities to be determined by common agreement, but to permit the haphazard distribution of wealth and income (especially of wealth) to exhaust the productive capacity of the country. Even the least financially minded must recognise that the productive powers of the state are not unlimited; that therefore a certain choice will have to be made as to what the community can "afford" after the war is over Are we to proceed in future, especially in the dangerous post-war period, merely on the basis of the desires of those individuals who can make their desires effective? Are we to build palaces before restoring decent housing conditions? Are we to import luxuries when it will be, on any hypothesis, rather difficult to provide for necessities for the community as a whole? If at the end of the war "effective" demand would originate from the desires of approximately equally well endowed individuals, the assumptions underlying the analysis of the three essays might well be granted. However far-reaching changes in economic and capital distribution have taken place during the war, surely this basic hypothesis is far from being true. It should be the state which determines the basic effective demand, *i.e.*, plans reconstruction and provides expenditure to ensure decent basic conditions for the population as a whole, with the *luxuries* being the *balancing factor*, in the sense that, if those basic conditions are established, the margin should be permitted to be used freely, by those who can afford it, for obtaining luxury, colour and amusement.

4. *Definition of Full Employment*.—One of the articles explains that full employment "does not mean the total disappearance of the unemployed." It means the disappearance of cyclical unemployment. A certain amount of what one might call "transitional" unemployment is imperative "for the elasticity of the national economy" but with this phrase, the author glides over the most important of all dilemmas with which the modern economist is faced, the dilemma between political and economic liberty. At the moment, full

employment can be said to occur when acute shortages arise in the supply, not even of certain kinds of skilled labour, but of any kind of productive capacity. Once the bottle-neck stage in the business cycle is reached, the stage is set for the cumulative process ending in a boom and crash. If, therefore, "normal peacetime activity" is to be resumed after the war, and if we wish to avoid the recurrence of vast business cycles, we shall have to make up our minds to face a very considerable "transitional involuntary unemployment" estimated at between 10 per cent. and 15 per cent. of the economic system.

Economists have not yet realised the full scope of the problems to which a policy of full employment would give rise. Before the war, labour mobility and labour efficiency as well as monetary equilibrium were entirely provided by the threat of destitution through unemployment (even if the unemployed received some dole). As soon as employment began to be anywhere near "full," the bargaining power of trade unions increased and discipline in the shops relaxed. This state of affairs was, to say the least, unwelcome to most employers, and this undoubtedly resulted in their disinclination to embark on further investments, which automatically brought the cumulative upward movement to an end.

Full employment necessitates a change in the position and attitude of both entrepreneurs and trade union leaders. *The Economist* realises the implications of this change in regard to entrepreneurs, when it suggests that a policy of full employment necessitates the control over physical investment, or, in other words, that the elimination of risks of cyclical character necessitates the imposition of artificial restraints, in order to prevent a runaway upward spiral originating from the side of the entrepreneurs, *i.e.*, speculation in commodities, speculation on the Stock Exchange, speculative investment. But it completely baulks at dealing with the labour side in the same context. The minimnm unemployment necessary to retain some elasticity in the economic system, and so to permit the smooth adaptation necessitated by economic progress, will be intimately connected with and depend upon the social and economic system which is established. If we are to rely on the present individualistic system, where the movement of productive factors is enforced by variation of income, and in the case of labour loss of income and destitution, then, indeed, the scale of unemployment necessary will be quite considerable. If, on the other hand, an economic system is established in which some measure of planning and direct control is retained, then the unemployment necessary for elasticity will be very much lower. It must be emphatically stated, however, that such a system will have to rely for discipline not on the fear of the poor of destitution, but on their sense of responsibility and co-operation with the managements.

The workers will, unless a new social equilibrium is reached, insist on using their bargaining power, increased by the state of nearly full employment, to extort as many concessions as possible. As long as there is no reality in National Unity, full employment will inevitably result in a wage inflation. On the other hand, it is obvious that the sense of justice and the political tendency both demand an equalisation of incomes. Unless some constructive

solution is found, we shall see a tendency towards depression in the economic system. Capitalists will not venture their capital. This will call for a high rate of state investment and be complicated by "Confidence" crisis. This process must lead either to the establishment of a Fascist regime where the bargaining power of the workers is eliminated by terror or to such gradual encroachment of the state on private enterprise as would limit the scope of private initiative even in fields where it could be well maintained.

5 *Flexibility in Working Hours.*—There is no need, however, to assume that, after the war, full employment in any true sense of the word entails such far-reaching regimentation, especially over manpower, as has evolved in Russia, Germany and lately even in this country. In a war economy, the aim is maximum striking force at whatever cost compatible with the maintenance in the long run of efficiency and morale. At peace, however, the leisure and ease of the population is, within certain limits, one of the main aims of economic policy The more successfully we achieve this aim, the more there is in reserve for any temporary spurt required by economic emergencies on the part of people working in bottle-necks. This could constitute the reserve (*i.e.*, flexibility) necessary to remove those bottle-necks. If the working day is reduced to an average of six to seven hours a day, then it would be easy to increase production without grave discomfort in certain occupations to eight or nine hours, *i.e.*, by anything between 10 per cent. and 30 per cent. Such increase in productivity should be ample, especially if the control of investment and the plan underlying that control has not been at fault, to provide that elasticity which we require.—Yours sincerely, T. BALOGH. Balliol College, Oxford.

[Mr. Balogh, whose letter is a notable contribution to the thinking-out of these crucial problems, would no doubt admit that a good deal of his criticism carries the subject into a province which *The Economist*, for its part, did not attempt to enter. Indeed, it is the gravamen of his charge that the policy outlined by *The Economist* was intended, modestly but with some realism, to fit the economic circumstances of this country as they are likely to be when the war is over. Admittedly, the course and details of the argument might be drastically altered by the hypothesis of very sudden and very sweeping social and political changes. But whatever the desirability or otherwise of such changes may be, this is another question.

—EDITOR.]

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To THE EDITOR, *The Economist.*

SIR,—In your article on Full Employment, on October 17th, you advance the argument that investment carried out by the state entails a danger of inflation, while private investment does not, because state investment is likely to be accompanied by an increase in the quantity of money. This argument appears to be based on a confusion.

Investment expenditure of any kind increases the demand for consumption goods, for incomes earned in producing investment goods are free to be spent on consumption goods. Too much investment will involve an excess of demand for consumption goods ove-

the available supply at current prices, and so tend to drive up prices. The problem of avoiding inflation is the problem of maintaining the right amount of investment, and has nothing to do with the question of whether the state or private concerns own the investment goods produced.

The question of the quantity of money is connected with the rate of interest. An increase in the level of money income, due to an increase in productive activity, raises the demand for money, so that, if the quantity of money is not increased, the rate of interest will be forced up. If the authorities desire to see both full employment and a steady rate of interest, they must increase the quantity of money, no matter who is undertaking the investment.

The distinction between public and private investment has no relevance whatever to these problems. The importance of the distinction lies in the fact, which you point out, that public investment must involve a gradual extension of socialism. So long as you stick to the argument that socialism is a bad thing, your case is perfectly clear and ingenious, but sophistical excursions into monetary theory do not strengthen your position.—Yours, etc., JOHN ROBINSON, 3, Trumpington Street, Cambridge.

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TO THE EDITOR, *The Economist*.

SIR,—You say in your articles on Full Employment that the danger of causing economic strife abroad by a policy aimed at maintaining full employment at home can and should be avoided. I am not convinced.

You admit that exchange control and control of imports will be necessary for the controlled investment policy you advocate to work; and that this policy is not compatible with the free and automatic working of the international exchanges. This I agree with, and I think it is terribly dangerous to embark with open eyes on a path which you yourself confess may lead, as it always has done in the past, to competitive economic nationalism, competitive restriction, and so on. I do not believe that the risk is worth while.

Can I draw your attention (probably unnecessarily) to what other liberal journalists have said about your scheme? The City Editor of the *News Chronicle* says that you are "willing to pay the price of unemployment in other countries in order to abolish it here," and adds, in my view correctly, that "full employment for a single country is too narrow an objective." And a writer in *The Observer* says that "what has always stood in the way of full employment in the past has been the fear of a large deficit in the balance of payments; and if full employment is achieved by stimulating industries that take the place of exports, the result is to cause unemployment abroad, which must sooner or later react on one's own export industries." I agree with these arguments

I am not very much more impressed by the way in which you brush aside the other dangers of the planning of investment that you suggest: the danger that everything and everybody, employment, prices, wages, etc., will have to be controlled and regimented down to the last detail; and the danger of inflation. I think your articles

are very important, and, in theory, very able and logical. But I do not believe it will work.—Yours faithfully, J. JOHNSON, Salford.

[It was admitted in *The Economist* articles that the policy proposed for full employment carried with it distinct dangers—that of making the state totalitarian, of debauching the value of money, of causing economic strife abraoad or creating stagnation at home. But it was argued that the certainty of political chaos if a bold effort is not made to cure chronic unemployment after the war more than justifies the taking of these risks They must be taken; and, in *The Economist's* view, there is no practical reason why, given goodwill, skill, knowledge, democratic methods and international co-operation, all the risks should not be overcome. Neither in practice nor in theory is there anything in a full employment policy which contravenes the need for a large, expanding volume of international trade or which stands in the way of the international division of labour. The stress put by Mr. Jhonson and others on the international implications is, of course, very sound, if only because it emphasises the fact, which was not perhaps brought out distinctly enough in the articles, that the solution is to proceed by international co-operation, by the pursuit of full employment by planned investment in each country *according to a concerted programme agreed among the nations, and with the minimum of impediments to the flow of goods and capital from country to country.*—EDITOR.]

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TWO NATIONS

To THE EDITOR, *The Economist.*

SIR,—In your comments under the heading "Two Nations" in the issue of *The Economist* on October 31st, the following statement is made:—

> The social surveyor of a hundred years hence who reads of such statements as Lord Wardington's—that the rich man to-day has no penny left after paying his taxes and commitments to buy a crust of bread—and then studies Lord Wardington's household accounts will be perplexed.

The inference drawn from this incorrect and incomplete quotation of my recent remarks in the House of Lords gives such an entirely erroneous impression of the whole tenor of my argument, that I feel sure you will welcome the opportunity of revising your criticism. The actual words I used were:

> These so-called rich, after paying these liabilities from which they cannot escape, will not have a penny of *free income* left with which to buy a crust of bread.

—and I went on to say that the so-called rich were now compelled to spend their capital—where such was available—in payment for any of their personal needs. I made it clear that I used apparently exaggerated language on purpose, in order to bring home to the general public, who were ignorant of these facts, what the actual position was. That what I stated was the adsolute truth any professional person dealing with these matters can testify, and I am surprised that a paper of the importance and experience which

The Economist possesses should have thrown doubt on the truth of my statement. It was evident, I think, that I was not talking of my own position, and it was equally clear that I entered no plea for pity for those who were left with no free income with which to meet their personal requirements, but who had, nevertheless, acquiesced in this deprivation for the purposes of the war without a murmur. My whole object was to let the plain truth be known, and in this I feel confident I shall have the sympathy and support of *The Economist*.—Yours faithfully, WARDINGTON, 16, St. James's Street, S.W.1.

[Lord Wardington has defined "these liabilities from which they cannot escape," very roughly, as "income-tax and surtax (including Schedule A on property which not only brings in no return but involves large payments in rates and taxes and upkeep), fire insurance premiums; life policy premiums within the limits of one-sixth of income; jointures and family allowances; War Damage contributions; charitable subscriptions, payable annually, though not under deeds of covenant; and pensions to estate and other servants."—EDITOR.]

* * *

EMPLOYMENT: THE WHITE PAPER

The White Paper is an outline of Government policy, a recognition of the Government's responsibility for the maintenance of a high and stable level of employment after the war. The problem is an international as well as a national one, and some steps have already been taken towards collaboration Mass unemployment will not arise, however (apart from temporary unemployment due to dislocation), *until after the transition period from war to peace is past* To implement the policy outlined in the Paper, legislation, though necessary to confer the requisite powers, will not be enough. The full support of industry and workers will be no less important than Government action

I. The International and Industrial Background

Although the White Paper is concerned with domestic policy, it is apparent that a high level of employment depends also on the expansion of British exports above the pre-war volume, to make up for the loss of foreign investments during the war. Such expansion would be impossible without general economic stability and prosperity abroad. It will, therefore, be an essential part of the employment policy actively to co-operate with other nations to this end. As proof of their intentions, the Government have already concluded general international agreements in this field (Atlantic Charter, U.S. Mutual Aid Agreement, acceptance of Hot Springs Conference recommendations). Further action aiming at the development of economic strength in the Commonwealth and Empire, with a consideration of the I L O Conference recommendations, are among the first contributions which the British Government can make.

A resilient and flexible industry, however, will bear the chief responsibility for the recovery of export markets. To give priority to the export industries in labour, raw materials and factory space does not mean that efficiency in industry can be left to those industries alone. The proposals made in the recent Budget speech for helping industry through tax-modifications for research and replacements will help British industry to improve its technique and efficiency.

II. The Transition from War to Peace

The duration of the transition period between the end of the European and Pacific wars is incalculable. It will bring an unsettling of economic conditions, starting with the release of some of the labour force. National service legislation and price control have served respectively to reduce unemployment from 1-3 million to 75,000, and to check the demand for consumer goods. The return to civilian production, for which there will be a great demand, will involve a change of employment for about 7 of the 23 million persons now in the Armed Forces and gainful employment. Government expenditure, now employing some 80 per cent of the manufacturing labour force, will be partially reduced, and these works, together with those

demobilised from the Forces, must be absorbed in expanding civilian production. The integration of the two movements, however, cannot be always and everywhere perfectly matched There will be a threefold danger of local unemployment, of inflation and distorted expansion of civil industry. For the first, the danger of unemployment developing where local industries fail to adapt themselves quickly enough to civilian production can be exaggerated. immediately after the last War unemployment was neither great nor of long duration To reduce it to a minimum, the Government are preparing both to assist industry and labour to adapt themselves to changing conditions, and to regulate Government production and stock sales to meet the needs of priority civilian production so as to promote orderly expansion in the transition period These plans will be assisted by experience of war-time transfers and by discussions with the industries concerned.

To avoid the second danger of inflation arising from an excess of purchasing power over supplies, both Government action and public restraint will be necessary. Rationing and price control will have to be maintained, though no definite level of prices can be assured since the cost of imports will depend on world prices Savings must also be continued if a sufficient portion of increased civilian production is to be diverted to schemes of reconstruction and social development. Lastly, the uses of capital must be carefully regulated to avoid dear money and to direct expenditure to priority needs. These essential restrictions will not be altogether palatable, but the Government feel confident of the same popular support that has been given in time of war.

The danger of misdirected demand interfering with the production of essentials will necessitate a system of broad priorities for food, raw materials and labour. Lend-lease and credit will no longer be available for importing essential food and raw materials. To take their place export industries must be given the first opportunity to expand In the home market, the necessities of civilian life and the capital equipment required by industry must be produced before anything else. How long these controls must be kept up depends on the length of the transition period. When that period comes to an end it will be necessary to take deliberate action to maintain an adequate level of expenditure on goods and services.

III. The Balanced Distribution of Industry and Labour

The fact that the effects of localised unemployment in the transition period will continue long after it is ended necessitates a brief description of measures which the Government propose to take to check its development Apart from seasonal unemployment, longer-term employment in particular industries and areas, which was a familiar feature in this country between the wars, is usually due to technical change, to the trend of fashion, or to foreign competition. The situation under conditions of depression is aggravated by a lack of industrial balance and, in particular, by the localisation of industries of one type or of industries with a common market. ("Industry" here as elsewhere in the White Paper, is used as a genetic term for all types of productive process, including commerce and agriculture) Besides promoting the prosperity of the basic industries in the areas

concerned, the position can be eased by the encouragement of secondary industries within the area and by removing the physical and educational barriers to mobility of labour. By means of compulsory notification to the Government of new factory development, and the prohibition of development in areas already overcrowded, industrial expansion can be steered into areas which require greater balance and diversity of production. Further influence can be exerted by the Government through the location of continuing munitions production, the grant of priorities and Government contracts; the erection at the expense of the Government of factories in "development areas" for sale or lease to industry, and assistance with the capital requirements of industries in these areas The Government will also ensure that they are adequately supplied with the basic services—power, communications, housing and other public services. In view of the constantly changing conditions from time to time no final list of these areas can be drawn up Special Areas legislation can be dropped, since in all but a few cases, as the war has shown, there is no reason why they cannot be re-established on a sound economic basis. The main responsibility for the implementation of this policy will rest with various Government departments. A regional organisation will bring together representatives of those concerned in the local application of these measures—chiefly the Board of Trade, the Ministry of Labour and the Ministry of Town and Country Planning On the national level, however, the Government propose to give responsibility for all questions of general industrial policy to the Board of Trade.

To increase the mobility of labour, the Government proposes not only to implement fully and make permanent the temporary resettlement schemes for ex-Service men and women and released war workers, but to give every encouragement to industry to make provision for the training of its own recruits. Many jobs will require only a short period of training, and it is considered that this can best be undertaken in the factory itself. To meet the need for a longer training, the present Government Training Centres and Technical Colleges can be developed and extended. This will facilitate the supply of trained workers as they are needed Training allowances, at a scale higher than unemployment benefit but lower than the expected wage of the trained worker, will be made by the Government. These measures can only be successful, however, if there is full co-operation from employers and trade unions, especially in industries which have previously been apprehensive of admitting new trainees. The physical obstacles to mobility of labour are considered no less important. A substantial proportion of the houses erected after the war must be made available to workers at reasonable rents, and resettlement allowances made to workers transferred from one area to another.

IV. General Conditions of a High and Stable Level of Employment

Even after the transition from production for war to production for peace has been smoothly accomplished, the long-term problem of cyclical unemployment remains. The three conditions of full employment are stated to be the maintenance of a steady and adequate level of expenditure on goods and services, the stabilisation of prices and

wages relative to efficiency, and adequate mobility of labour. These are treated in turn.

(*a*) *The Maintenance of Total Expenditure.*—The first step in a policy of maintaining general employment must be to prevent total expenditure from falling away. The Government accept full responsibility for taking action at the earliest possible stage to arrest a threatened slump. Experience has shown that a trade depression does not bring its own corrective.

In order to construct a policy to maintain total expenditure it is necessary to analyse its component parts, to see how widely each may be expected to fluctuate and how easily the fluctuations may be controlled or offset. It can be decided that neither public nor private consumption expenditure is likely to vary to any great extent, since buying habits, individual and collective, are fairly constant. While public capital expenditure, especially by local authorities, has, in the past, been greatly reduced in depressions, this need not be so in the future. The greatest danger lies in fluctuations in private investment expenditure and in the foreign balance of exports and imports. Neither is easy to control; nor will it be easy to offset a decline in either by an increase in one of the other categories of expenditure. So far as is possible, the guiding principles of policy must include an expansion of exports, a stabilisation of all types of spending the public capital expenditure policy planned to offset variations in private capital expenditure and a reversal of the decline in private consumption expenditure as soon as it appears

(*b*) *The Stability of Prices and Wages.*—The effectiveness of the first condition, however, will depend on the fulfilment of the second If stability of wages, other than changes due to increased productivity or the removal of anomalies, is not maintained, an increase in expenditure will have no effect on unemployment rates. Similarly if higher expenditure results only in higher prices, real wages will remain roughly constant and there will be no reduction in unemployment. The Government are prepared to do all in their power to fulfil this condition, but without the full co-operation of labour and employers their policy cannot be effective. In particular, everything possible must be done to neutralise the potential threat of restrictive agreements on prices and output. Powers will be taken to collect information of the extent and effect of restrictive agreements and of the activities of combines, and appropriate action will be taken to check restrictive practices

(*c*) *The Mobility of Labour.*—The third condition is equally dependent on public co-operation with the Government. A certain amount of temporary and seasonal unemployment is unavoidable, but the responsibility for reducing it to its minimum rests as much on individual initiative as on Government assistance.

V. Methods for Maintaining Total Expenditure

After the transition period, in which it will be essential to keep the rate of interest as low as possible, the Government intend to see what can be done, through variations in the rate of interests, to influence capital expenditure for the promotion of stable employment. Monetary policy, operated collectively by the Bank of England, the

Treasury and the joint-stock banks, will not always be an adequate weapon against depression, and the Goverenment propose to supplement it with a more direct influence on the volume of public and private investment expenditure In particular, large private enterprises can be encouraged to plan their capital expenditure in conformity with the general stabilisation policy The question of adjusting taxation policy to accord with this plan is being considered Within the limits of its powers and of the urgency of some investment plans, the Government can also influence local authorities so that they increase expenditure at the onset of a depression and contract in periods of boom This, it is proposed, should be done by means of co-ordination of five-year public works programmes submitted by each authority, in the light of the prospective employment situation. By using their control over loan sanctions and grants, the Government can set an annual target of public works for the succeeding year. By cutting out all possible causes of delay between decision and construction, the effectiveness of public investment expenditure as a stabilising influence can be greatly increased. This policy may be extended to the public utilities. The assistance and co-operation of industry is again stressed as a vital factor in facilitating and speeding-up any changes between private and public expenditure that are felt to be necessary.

(*b*) *Consumption Expenditure.*—A second line of defence should it prove impossible entirely to offset variations in capital expenditure, lies in the power to influence the national expenditure on consumption. This, it is believed, can best be done by a thermostatic control of social insurance contributions. The White Paper has an Appendix showing how purchasing power could be increased in the event of falling employment by a temporary reduction of contributions, so as to encourage an increase in demand for consumption goods and services and increase employment. It is not proposed that such variations should be introduced until after the transition period or that the policy should reduce the total contributions made over a number of years. An auxiliary system of deferred tax credits might also be undertaken should it prove both practicable and necessary. Lastly, the purchasing power of the Government and local authorities can be directed towards the same object of stabilisation.

(*c*) *Central Finance.*—None of the proposals in the White Paper involves a sudden or major change in past Exchequer practice; in stabilising the national income they will even assist the problems of national finance associated with periods of depression. With regard to a possible increase in financial assistance to local authorities undertaking capital expenditure for reasons of employment policy, and to the inevitable costs of reconstruction plans, however, some increase in national indebtedness on top of that incurred as a result of the war must be taken into consideration. Although in single years there is no need to adhere to a strict balance in the Budget, the principle that it must be balanced over a longer period cannot be abandoned. These facts will inevitablly result in a high level of taxation which can only be met without excessive strain if the national income is fully maintained by means of progress in technical efficiency. A balance must, therefore, be struck between the need for a high national income and for budgetary equilibrium to ensure public confidence.

VI. The Policy in Practice

In putting forward the proposals outlined in the White Paper, the Government are fully aware that the suggested measures, involving as they do a great extension of state control over the volume of employment, are a new departure in practical politics. These united plans must be flexible in order to adapt themselves to unforeseen difficulties and obstacles. Quick and accurate diagnosis of cause and effect in the national economy will be indispensable to success, and can best be undertaken by a small staff of statistical and economic experts able to advise the Ministers concerned Their work will be impossible without accurate and up-to-date statistics, a need which only the full co-operation of industry can meet. Information will be needed, in addition to that already available, on present employment, unemployment and prospective employment, in each industry and area; on savings and projected capital expenditure, both private and public; on the annual quantity and value of production, on monthly production and consumption and on stocks and orders on hand; and, lastly, annual and quarterly estimates of foreign capital movements and balance of foreign payments. An extension of the scope of the annual White Paper on National Income and Expenditure is also intended to provide a more complete analysis of the national economy. A parallel study of the manpower position by the Ministry of Labour will serve to complete a constantly changing reveiew. The debates on the Budget can be adapted to provide an annual opportunity for Parliament to discuss in national economy and the general policy of the Government in promoting full employment and a rising standard of living. The latter objective, the White Paper emphasises in conclusion, cannot be achieved by full emeployment alone without a steady increase in the economic efficiency of the nation

BRITISH AND AMERICAN INCOMES

AMERICAN SURVEY

One of the most remarkable phenomena of the war, both in Britain and in the United States, is the great advance in economic education that it has brought in its train. The last war, on the whole, bred a crop of economic delusions This war—unless the present appearance of things is grossly deceptive—has taught some lessons of real value among the prevalent fancies The chief lesson, and, if it sticks, the most valuable, has been the recognition of the importance of the national income—the realisation, that is to say, that there is a finite, though expansible, volume of production out of which the community must satisfy all its needs. An earlier generation used to call it the national dividend, and in a sense that is an apter description. But whatever the title given to it, the concept of the national income is one which has advanced in a very short span of years from the academic playroom to the centre of the political stage. Both in the United States and in this country there have been enormous strides in perfecting the statistical apparatus for studying the national income. In America, the pioneers have been a group of statisticians working under the National Bureau of Economic Research, now led by Professor Simon Kuznets, and a second group of resourceful researchers in the Department of Commerce. In England, the honours are also equally divided between private researches, such as Professor Bowley and Mr. Colin Clark, and an anonymous team of Government servants whose work appears in the annual budget White Papers.

Unfortunately, "national income" may have a variety of different meanings for different persons. And when the nation's war efforts begin, under Presidential encouragement, to be compared by reference to the proportions of their national incomes that are engaged, it is time to attempt to bring a little order into the present chaos of meanings and definitions. This task has been accomplished by Mr. Richard Stone in an article in the *Economic Journal* for June to September, which recalculates and adjusts the American figures in accordance with the nomenclature of the British White Papers. Mr. Stone is careful to disclaim any superior qualities for the British definitions, and it would be a great pity if any controversy were to arise on that score. Mr. Stone himself, indeed, is rigidly scientific: he never permits himself a guess, and rarely an opinion; but his tables (for the full details of which the reader must be referred to the *Economic Journal*) will be of enormous assistance to all those who, for any reason, wish to compare the economic structures of the two countries.

Mr. Stone's figures (which are based on the estimates of the Department of Commerce) extend over the whole series of years from 1929 to 1941. Net national income at factor cost in 1929 was 87·6 billion dollars. From there it fell to 41·9 billion dollars in 1933, and climbed again to 72·6 billions in 1937. There followed a recession to 66 1 billions in 1938, and then a steady recovery to

72·0 billions in 1939, 79·8 in 1940, and the record figure of 99·1 billions in 1941. British figure on a strictly comparable basis exist at present only for the three years 1938, 1940 and 1941. Table I presents the total figures for the comparable years. It also gives the rough figures per head. For full compatability, of course, the figures should be converted into a single currency. Unfortunately, there is no warrant for thinking that the market rate of exchange in 1938 adequately measured the real relation of value between the two currencies; and there is even less reason to suppose that the pegged rate of war time is a true reflection of real parity. For what it is worth, however, the conversion has been done at these rates, though the results should be approached with all due caution.

TABLE I

Net National Incomes

	1938	1940	1941
Net national income at factor cost—			
1 United States (billions)	66 1	79·8	99·1
2. United Kingdom (£ million)	4.595	5 585	6,338
Per head—			
3 United States ($) ..	500	604	751
4 United Kingdom (£s)	95	116½	132
5. ,, ($s)	468	469	532
6. Rate of exchange ($s) ..	4·89	4 03	4·03
7. Ratio of 5 to 3 ..	94%	78%	71%

The obscurity surrounding rates of exchange makes it impossible to draw a direct comparison between the real average national incomes of the two countries. The ratio between them, indeed, varies from year to year, owing to the greater volatility of the American national economy, The ratio for 1938, for example, was undoubtedly influenced by the fact that the recession of trade in that year was far sharper in America than here, and it may be that in some years, such as 1933, the average British income is actually higher, in real terms, than the American. On the average of years, however, it seems probable that the average British income lies somewhere between three-quarters and seven-eights of the American —80 per cent. might be a fair average figure to take for *prima facie* comparisons.

DISTRIBUTION OF INCOMES

Another most interesting set of comparisons relates to the distribution both of income and of expenditure. Table II gives the data: 1938 is given for the United Kingdom, and 1939 for the United States since it is not possible to find a single year which can be taken as typical of pre-war conditions for both countries at once.

According to these figures, the peace time distribution of net income in the two countries was broadly similar. Both labour income and the total of interest and profits were slightly smaller

TABLE II

Distribution of Income and Expenditure

United Kingdom	United States ($ billions)		United Kingdom (£ millions)	
	1939	1941	1938	1941
Rent, etc, of land	3·5	4 1	373	379
Interest and profits	22·0	31·5	1,351	1,722
Labour income	46·8	63·1	2,871	4,237
Net national income at factor cost	72 0	99·1	4,595	6,338
Consumers' expenditures	63·5	77·4	4,056	4,689
Government expenditures	14·1	23·5	833	4,182
Private net investment at home	3·9	9 6	406	−493
Public and private net investment abroad	0·8	0·9	−55	−798
Net national expenditure at market prices	81·4	11·4	5,240	7,580

in Great Britain, and the income from land larger. What is of far greater interest to the economist is that the distribution of expenditure between consumers' expenditures, Government expenditure and net investment, so far as the comparison of these two peace time years is any guide, was almost identical. Net investment was actually a rather larger proportion of total expenditure in the United Kingdom in 1938 than in the United States in 1939. Per head savings, at the current rate of exchange, was $ 52·30 in the United States and $ 46·45 in the United Kingdom. Moreover, the allocations made by businesses for depreciation of capital (which, though not counting as part of net income, have to be matched by physical investment if equilibrium is to be maintained) do not appear to be proportionately any larger in the United States than in Great Britain. These figures do not lend any support to the doctrine, which is fashionable on both sides of the Atlantic, that the volume of savings in the United States is so high as virtually to defy the efforts of the community to find investment outlets. It is true that 1939 was a less prosperous year in America than 1938 was in Great Britain, and that savings in the boom year of 1929 (let alone in the war boom year of 1941) were half as large again as in 1939. Nevertheless, in view of the vast physical size of the American Union and the vast potentialities of expansion that still remain, there would not seem to be any insuperable obstacles to the absorption of the national savings. If Great Britain, with its inherently greater difficulties, can still (as it did throughout the later '30s) find fruitful investments for its savings, it should not be very difficult for the United States to do likewise, find an outlet for savings which are propotionately no larger, or very little larger. The American economy is now fully mature, in the sense of being adult, but not in the sense of being naturally stagnant.

War Economy

A third comparison—in present circumstances the most interesting—is that of the changes that war has forced on the economic structures of the two countries. Unfortunately, to quote money figures is of very little avail owing to the considerable change in the value of money. An informative comparison therefore involves an estimate of the allowance that should be made for the rise in prices. This has been done in Table III, though it should be emphasised that the results are necessarily very approximate. The figures have been given in the form which is already familiar in the columns of *The Economist*, in which all the quantities are expresssed as percentages of the national income in the base year. The figures for the United States are, for 1939, 1940 and 1941, based on Mr. Stone's re-arrangement of the official estimates, and, for the financial year 1942-43, on an article by Mr. Milton Gilbert in the March 1942 issue of the *Survey of Current Business* for the financial year 1942 43 Then figures for the United Kingdom for 1938, 1940 and 1941 are estimates, and those for the financial year 1942–43 are guesses, by *The Economist*, in all cases the conversion from money terms to real terms is somewhat speculative.

Table III

Distribution of National Income in Real Terms
(Net National Income of base year = 100)

	Base Year		1940		1941		(Prospective) 1942–43*	
	U.S (1939)	U.K (1938)	U S	U K.	U.S.	U.K.	U.S.	U K.
Personal expenditure –	78	77½	82½	71½	88	69	76½	64
Government expenditure ..	17¼	16	18¼	49	26½	61	69	67
Net Investment	4¾	6½	8¾	–16½	11½	–19	2½	–17
Net national income at market prices ..	100	100	109½	104	126	111	148	114

* Fiscal year in each case—*i.e.*, July-June for U.S., April-March for U.K.

The total of Government expenditure in the current year will, if the estimates are reached, form about the same percentage of *pre-war* national income in each country. But the ways in which resources are provided to meet this increase in expenditure are very different. The United States had the possibility of a very large expansion in total output, and as a result the war expenditure can be accommodated by bringing consumption back to the pre-war level (or slightly lower) and by cutting in half the pre-war rate of additions to capital. In the United Kingdom, the extent to which the national income could be increased was much smaller, for a variety of reasons, such as the smaller volume of unemployment, the disturbing effects of black-out, blitz and blockade, and the higher proportion

of men in the relatively unproductive occupation of soldiering. Consequently, the required increase in Government expenditure could be attained only by a severe cut in consumption and by converting the pre-war rate of investment into a very heavy draft on accumulated capital. If the cost of the war can be measured by the increase in Government expenditure, then it has been distributed as follows (the figures being, as in the previous table, percentages of the net national income in the base year):—

	U.S.	U.K.
From increased output .. .	48	14
From diminished consumption ..	1½	13½
From reductions in net investment (or from drafts on capital) .. .	2¼	23½
	51¾	51

It should not be necessary to add that figures of this nature (which are very approximate in any case) do not provide any basis for criticisms or invidious comparisons. In particular, it should not be forgotten that Britain would not have been able to meet its needs by drawing on the accumulations of the past (or could not have done so to same extent) if there had been no United States to draw on. And the candid observer will record that the heavy restrictions of civilian consumption in the United Kingdom were as much due to the compulsions of the Battle of the Atlantic as to any voluntary national stoicism. But the figures do illustrate very clearly the difference in the economic circumstances of the two countries. Fortunate is the nation that can make so gigantic an effort at such little cost to its present welfare or to its future wealth.

THE FINANCIAL INSTRUMENT

The days are gone when debates on war finance were inquests on the rate of war production as measured by the rate of Government expenditure. This fact reflects the high degree of mobilisation that has now been achieved Attention has been transferred instead to the financial system itself. There is a body of opinion which believes that wartime experience has confirmed the charge that the present banking structure and methods of public finance are inefficient, obstructive and detrimental to the common weal. The demand is made for a Royal Commission to disclose the "fact" on which a radical recasting of the system can be based, for a new Bank Charter Act, on the centenary of the first, to put an end to the banking "monopoly", and for the clipping of bank profits meanwhile by a reduction in the cost of short-term borrowing by the Treasury.

These views, which were less evident in Wednesday's debate on war finance than was expected, cannot be accepted, not because they are heretical, but because they are erroneous. Admittedly, the experience of war economy has made plain certain vital truths, formerly too little regarded, about the nature and objects of financial policy. But, it has in no significant way discredited the existing financial instruments. If there have been deficiencies, that is, apart from the not inconsiderable fallibility of bankers and civil servants, they have been in the aims pursued, not in the machinery employed to pursue them. The real discovery of wartime is not that finance in itself is humbug, but that finance is only a means to an end. The end is the distribution of the nation's real income in such a way as, on the one hand, to secure a maximum output of goods and services from the physical resources available, and on the other hand, to ensure a minimum of necessities for every individual and family in the community. Three years of war needs have forced the makers of policy to regard their task in terms of the real resources of manpower, plant and materials available, and not simply in terms of budgetary ways and means. The discovery has been made, as Mr. Pethick-Lawrence retiterated in Wednesday's debate, that the role of finance is merely to make certain, by its influence on the distribution of the national income between different claimants, that financial considerations are never an obstacle to programmes which are physically possible. It is by the use of this discovery that the post-war programmes to make the most productive use of the nation's available resources can be fashioned. It should be possible to work out from statistical knowledge of the real national income, and its optimum distribution between investment and consumption, a policy for full employment; and it should be impossible to repeat the disaster of seventeen years ago, when, by the return to the gold standard at a conventional parity for purely financial reasons, resources of men and machinery were deliberately thrown out of employment, and the real national wealth was correspondingly curtailed. In other words, the basic truth which has of necessity been recognised in wartime conditions is that a nation's wealth consists, not in its monetary means or financial devices, but in its real possessions of manpower, machinery, materials and technical skill.

Nevertheless, the discovery that finance is an instrument and not an arbiter, a servant and not a master, does not mean that finance is unimportant. The crucial point which war more than any other experience underlines is that the multiplication of money is not the multiplication of goods. Except when there is a considerable proportion of real resources already idle, the inflationary way is always wrong. In wartime or in peacetime, inflation is, above all, the way not to distribute a nation's real resources. The consequences of an inflationary scramble for goods and services, with prices and incomes in a ceaseless mutual pursuit, are always unfair, indiscriminate and inefficient. This is fully realised in wartime, when the two tasks of reserving resources for planned war production and of guaranteeing to every citizen a minimum supply of necessities are paramount. With the addition of physical controls upon the distribution of resources, by means of raw materials priorities and allocations and the rationing of foodstuffs and clothing, the orthodox methods and institutions of British finance, for all their creaking at times, have secured a signal triumph during the war in warding off inflation. This was generally recognised in the Commons on Wednesday. But the struggle is not over. Any further appreciable expansion in earnings might still give rise, not to the galloping inflation of classical theory and historical experience, but perhaps to a sufficiently strenuous pressure on costs and prices to upset the equilibrium which so far has been preserved. Moreover, the war will end, maybe quite suddenly. There will be a vast pent-up demand for goods, and a large volume of postponed purchasing power in the shape of savings, post-war credits and gratuities. If it is possible to maintain the controls on physical consumption which have been maintained during the war, the danger of inflationary developments will be minimised. But there will be a strong psychological revulsion from the wartime regimentation of consumption, both on the part of industry and the public; and there is everything to be said for lessening the prospective danger of post-war inflation by the utmost possible restraint upon the indiscriminate piling up of monetary claims—to be presented just when the needs of reconstruction will require the same kind of priorities in the use of resources as war economy. Moreover, a wartime policy, which can build up income levels with impunity because of wartime controls, may pay too little heed to the commercial dangers of an inflated structure of costs and prices in world competition when the war is over. So far, the story has been one of success; but this is no reason for ignoring the risks that may be run in the post-war future.

The way is open for the use of financial means to assist in the task of securing the most productive use of the nation's resources. This is the lesson of war economics, and not any demonstration that banking is an obstructive monopoly maintained by private vested interests, a charge which is sufficiently denied by the fact that, throughout the banking system, it is the Government and not the bankers which has the power to call the tune. The attack on the cost of short-term borrowing, even though the gross cost to the taxpayer of borrowing a given sum in this war has been, as Sir Kingsley Wood pointed out, only a third of what it was in the last war, is an example of this belief. The argument is that Bank rate

was at the present level of 2 per cent. for some seven years before the outbreak of war, and was for part of that period at any rate accompanied by short-loan and discount rates of about half the present figures. Why, it is asked, should the Treasury be forced to pay twice the rates it paid before the war for its floating debt borrowing? It is pointed out that the level of short-loan rates and, therefore, of discount rates, is dictated among the banks. "I spy monopoly" is the conclusion. Actually, the conclusion is wrong. In the first place, the present agreed rates have the consent of both the Treasury and the Bank of England, though this may not be sufficient reason for accepting them. The real point is that the question of what are the proper and reasonable rates for the Government to pay on floating debt borrowing should be discussed, not in relation to the status of the banks, but as part of the general problem of the structure of interest rates. In the course of three years, the present structure has settled down and acquired a cohesion. The range of interest rates, from the ½ per cent. on bank deposit accounts to the 1 per cent. on money market loans, the 1 1/32 per cent. on Treasury bills, the 1⅛ per cent. on six months Treasury deposit receipts, the 2½ per cent. on Post Office Savings accounts and medium term Government loans and the 3 per cent. on longer term loans, suggests no lack of balance of a disproportionate height in the case of the shorter rates. Here is the nicely aligned structure of the Three Per Cent. War; and it would be difficult to tamper with it at one point without making drastic changes elsewere. If, for example, the critics had their way, and the bill rate came down to ½ per cent., with ⅝ per cent. as the TDR rate, the banks would inevitably have to cut deposit rates; and the result would be a rush of funds from the banks to the Post Office Banks, a movement which would leave the Government out of pocket. If this, in turn, were countered by reducing the Savings Banks rates, there would be a movement of funds into the even more expensive National Savings Certificates.

It is on these lines that this and similar problems must be judged. They are again and again misjudged because they are thought of in terms of vested interest and not in terms of financial facts. Bankers have sometimes been, and still are, as foolish and shortsighted and hidebound as most So have some Treasury officials. This affords no ground for the present foot-and-branch compaign, for the whole field of finance, including the volume of credit, is already under effective public control. The critics are right when they argue that there must be no return to the financial "dictatorship" of the old days when narrow and short-sighted views of finance impeded the full use of national resources. But they are wrong to suppose that these impediments arose from the character of Britain's financial institutions. In fact, they arise from wrongheadedness, from a wrong attitude and a wrong policy. If the lessons of the war are properly read, the right policy and the right attitude should be forthcoming after the war. Finance will be regarded as an important means to a still more important end—the full employment of Britain's resources. And, by international agreement on the problem of post-war exchanges, international finance may similarly come to be regarded, and used, as the means to a still larger end—the full employment of the physical resources of all the world.

CENTRAL BANK LEGISLATION

Legislation in matters of central banking was unusually active during the six months preceding the outbreak of war. The measures taken fall into two groups, reflecting very clearly the two chief problems with which monetary systems were faced in the domestic sphere during the preiod under review—namely, (*a*) the provision of additional currency to satisfy the public's demand for cash, and (*b*) the extension of credit facilities to Governments for the financing of defence preparations.

The measures falling under the first head were taken in countries having a fixed fiduciary note issue in addition to a variable issue covered wholly or partly by gold. Thus, in Japan, the maximum limit of the fiduciary issue was raised from 1,700 to 2,200 million yen on March 31st, 1939, after having been increased from 120 to 1,000 millions early in 1932, when a policy of monetary expansion was first initiated, and further to 1,700 million yen in March 1938. In Norway, the amount of notes which the central bank may issue in excess of its gold reserve, still valued at the old parity, was increased from 325 million to 425 million kroner on May 19th, 1939. This limit, previously fixed at 250 millions, had already been raised to 325 million kroner in July 1936. The Bank of Poland's statutes were amended on March 24th, 1939, so as to raise the fiduciary issue from 100 million to 800 million zloty. The Finance Ministry was authorised to permit a further expansion of this limit to 1,200 million in case of need. At the same time, however, the gold reserve ratio on the remainder of the note issue was increased from 30% to 40%. In the United Kingdom, as was noted in last year's Review,[1] a new Currency and Bank-notes Act came into force on February 28th, 1939. This law, it will be recalled, confirmed the principle that it is the Bank of England's gold reserve which is to be adjusted to the note issue, and not *vice versa*. It fixed the fiduciary issue at a "normal" level of £300 million, and provided for transfers of gold from or to the Exchange Equalisation Account in response to variations in the total note issue.

The second group of measures consisted of those which empowered central banks to acquire larger amounts of Government securities or to make direct advances to the Government. Thus the National Bank of Belgium, which had been authorised in July 1937 to purchase Government paper up to an amount of 1,500 million francs, had its statutes changed on August 17th, 1939, so as to extend this limit to 5,000 million francs. The Bolivian Central Bank was nationalised by a Decree of August 3rd, 1939, and the Ministry of Finance was made responsible for arranging credits from the Bank in favour of the State and public enterprises. In Germany, under the new statutes of the Reichsbank contained in a Law dated June 15th, 1939, the Fuhrer alone determines: (*a*) the amount of Treasury bills which the Reichsbank may hold or on which it may

[1] See *Money and Banking*, 1938–39, Vol. 1, page 35.

make advances, and (*b*) the maximum amount of " working credits " which the Reichsbank may grant to the State The limits imposed by the old statutes on the purchase of Treasury bills (400 million marks) and on the granting of direct advances to the State (100 million marks) were thus abolished. The other principal provisions of the new Reichsbank law stipulate that the Bank " is subject to the unrestricted sovereignty of the Reich " (preamble) ; that it shall be " responsible directly to the Fuhrer and Chancellor " (Section 1) ; that the President of the Bank shall have full powers in all matters pertaining to the Bank's policy and management (Sections 3 to 9) ; and that the Bank's note circulation shall be covered primarily by commercial bills, Treasury bills, securities and loans against securities, while gold and foreign exchange are relegated to the position of " secondary cover " to be kept " at such a level as is deemed necessary in order to settle balances with foreign countries and maintain the value of the currency " (Section 21). In Lithuania, a law was passed in July 1939 allowing the Central Bank to buy Government bonds to the extent of its total share capital of 12 million litas; this right had been limited in 1922 to half of the Bank's capital and extended in 1935 to two-thirds. The Bank of Poland's new statutes, adopted on March 24th, 1939, raised the Bank's non-interest-bearing credit to the State from 100 million to 150 million zloty. Moreover, the maximum amount of Treasury bills held by the Bank, previously limited to 10% of a total bill portfolio varying normally between about 600 and 800 million zloty, was now fixed at 400 million zloty, so that the Bank's Treasury bill holdings could be increased by five to six times as compared with the position under the old statutes.

Finally, mention may be made of the steps taken in certain countries to set up new central banks. Thus, in April 1939, the Egyptian Government announced its intention of transforming the National Bank of Egypt into a central bank. In August 1939 the Government of Iraq submittted a Bill to Parliament providing for the establishment of a bank of issue. In the same month, a law was passed in Venezuela creating the " Banco Central de Venezuela" and instructing it to take over the existing note issues of the " National Bank" to receive Government deposit, to grant rediscount credits, etc. The Bank's capital was fixed at 10 million bolivars, of which half was subscribed by the Government and half by the public.

The Liquidity Problem

There are two ways in which war tends to affect the internal workikg of national monetary systems. In the first place, Government expenditure comes to absorb an increased share of the national income not only in the belligerent State, but also in a great number of other countries where exceptional defence preparation have become necessary. Taxes are increased, but State borrowing is also resorted to on a vastly increased scale; and this borrwing is apt to have far-reaching effects on the monetary circulation. The continuous pressure of war finance on the structure of currency and credit becomes more clearly apparent as time goes on. This problem will be dealt with in a subsequent study which it is hoped to publish in this series. Some of the repercussions which the war has already had in this respect will be briefly noted in Chapter III of the present *Review*.

The other characteristic phenomenon arising from war is a general search for monetary liquidity. This shows itself in a fall in security prices and a rise in interest rates, due to the public's desire to convert a larger proportion of its total assets into liquid money. Within the sphere of monetary assets, moreover, a shift takes place from bank balances to currency notes and coin. It is with this phenomenon that the following pages are concerned.

It may be stated at the outset that the "liquidity crisis" of 1939 was far less acute than that which occurred in similar circumstances twenty-five years earlier. In 1914, banks and Stock Exchanges were closed for long periods; extensive use was made of moratoria and similar devices. Special measures of this kind also adopted in 1939, as will be seen presently; but they were in general less comprehensive and less prolonged. No doubt banking systems and currency arrangements had in the meantime become more adaptable and elastic. But an important if not the principal difference seems to have been due to the manner in which the emergency developed In 1914, it developed with dramatic suddenness; markets were caught unawares, and the rush for liquidity assumed in some cases the form of panic. In 1939, the outbreak of hostilities came after a long period of tension, during which both the public and the authorities had had time to make the necessary preparations. It is a small but significant detail, for example, that the special currency notes which were put into circulation in Germany at the beginning of September1939 were dated January 1937.

Since circumstances differed in this essential respect, a comparison between 1914 and 1939, while it does not lack a certain interest, is not as significant as might be expected. In the following survey of measures taken to deal with the liquidity problem in 1939, no more than occasional reference will therefore be made to the analogous regulations introduced in 1914.

Memories of 1914, however, undoubtedly played an important part in 1939, in that the fear of a general closing of banks and of moratoria provided an incentive to the search for liquidity. But, for the greater part, the movement was probably due to various other factors. Chief among them was of course, the inevitable uncertainty caused by the outbreak of hostilities and a desire to be prepared against all eventualities, which, together with the prospect of heavy taxes and large loan issues, reduced the attractiveness of income-yielding capital assets as compared with the holding of money. The demand for "cash" as compared with bank deposits was, moreover, increased by a number of special circumstances. In many countries, there was a wave of retail buying for hoarding purposes, and larger amounts of currency were required to deal with the increased turnover, which, in most cases, was further swollen by a rise in prices. Such panic purchases were only a shortlived phenomenon in most countries. But a mere desire on the part of the public to be prepared for exceptional purchases may have been sufficient to cause more money to be held in the form of notes and coin.

A very important reason for larger cash requirements was, of course, the general or partial mobilisation of armed forces. The evacuation of women and children or even the mere prospect of such evacuation had a similar effect. The actual or anticipated separation

of families tended to increase both the number of seprate cash holdings and the aggregate of cash required. In some countries, another large part of the expansion of note issues was due to the steps taken by commercial banks to strengthen the reserves of till money in their provincial branch establishments, partly in order to provide for the public's increased demand for currency, and partly also to guard against the possibility of war-time dislocation of transport.

It may be well to note that, unlike the problem of war finances, the problem of wartime liquidity is, to a large extent, a non-recurrent one, relating especially to the transition from peace to war conditions, and presenting itself therefore with particular force at the beginning of the war. Once the demand for liquid resources is satisfied at the higher level, equilibrium tends to be established once more, unless new factors arise to alter the public's need or preference for cash.

The various measures which monetary authorities in a large number of countries were obliged to adopt in the latter part of 1939 to cope with the quest for liquidity may be broadly divided into two groups: namely, (*a*) those which were designed to hold in check the demand for liquid resources and (*b*) those which aimed at increasing the supply of currency and credit in response to the increased demand. The former group includes the measures whose object was to prvent or make more difficult the conversion either of Stock Exchange secruties into ready money or of bank deposits into notes and coin. The latter group covers, not only the provision of special credit facilities and the issue of special kinds of currency, but also steps taken to facilitate currency expansion in general. A survey of these measures will lead naturally to a consideration of the measures connected with war-time Government borrowing and the monetary effects of such borrowing, since, in order to meet the financial needs of the emergency in its first stages, Governments were in many cases oblige to have recourse to increased borrowing from the banking system. Additional amounts of currency tended thus to become available as a result of the same circumstances which caused the increased demand for them.

(*a*) MEASURES TO CHECK DEMAND FOR LIQUID RESERVES

(*i*) *Stock Exchange Regulations*

The fall in security valued resulting from the desire for greater liquidity and the corresponding rise in interest rates as reflected in the percentage yield of bonds may normally be expected to have an equilibrating function: the higher cost of hoarding in terms of the interest return foregone should tend both to discourage fresh demand for idle balances and to increase the supply through the relinquishment of old cash holdings. But the process of rapidly rising interest rates and falling security prices may, in times of voilent disturbance, have the opposite effect. Once a serious fall on the Stock Exchange has set in, this may lead to further sales of securities and a further demand for cash on the part of investors wishing to avoid the capital losses involved. It is largely to arrest a cumulative downward movement of this kind that special intervention in the capital market may become necessary in an emergency

The simplest measure is to close the Stock Exchange. Thus the London Stock Exchange was closed from September 1st to September

6th, 1939. But the purpose of the closure was not so much to cut short an excessive wave of liquidation this was done through the institution of minimum prices as to allow the authorities to carry out certain changes in organisation, including precautionary arrangements for evacuation. In 1914, it may be mentioned, the London Stock Exchange remained closed for five months after the declaration of war.

No closing of the Stock Exchange occurred in France In Denmark, however, a closure was ordered from September 1st to 11th, and, in Yugoslavia, from September 2nd to 7th, 1939. In Finland, the Stock Exchange was closed on September 1st, 2nd and 4th, and again from October 11th onwards, was reopened on November 22nd and was closed again shortly afterwards. In Australia, Stock Exchanges were closed on September 2nd and 4th.

The fixing of official minimum prices for securities furnished in some cases an alternative means of control. In the United Kingdom, a scheme of minimum prices was put in operation on August 24th, 1939—*i.e.*, on the day when the bank rate was raised from 2 to 4%. The scheme applied to British Govnrnment, Municipal and Dominion bonds. The minimum prices fixed were the bid quotations recorded on August 23rd. Members of the Stock Exchange were forbidden to deal in these securities at any lower price. As a result, selling orders accumulated, while purchases fell off. The volume of actual transactions shrank accordingly to an abnormally low level. The prohibition to deal except at prices fixed above the levels which would have resulted from the free play of supply and demand was thus naturally in some degree equivalent to a closing of the market.

These minimum prices were maintained after the reopening of the London Stock Exchange on September 7th. Gradually, however, the accumulation of selling orders was worked off, and the market regained its mobility. After the lowering of the bank rate to 3% on September 28th, transactions at prices above the official minima became more and more frequent. The price of 3½% War Loan the leading British Government security, of which nearly £2,000 million is outstanding exceeded the minimum on October 12th. By October 23rd, all British Government bonds had risen above the official minima. The whole scheme thus gradually became inoperative.

In Denmark, a somewhat similar scheme was introduced on September 12th, on the day of the reopening of the Stock Exchange. No bonds could be bought or sold at prices more than 2% below the lowest quotation recorded on August 31st. This rule was relaxed on Septimber 25th, so as to allow bonds and bank shares to fall from day to day, but not by more than one point per day. That the regulations effectively restricted the volume of operations is shown by the fact that the average daily turnover in bonds during September, taking into aacount the period of closure, was practically 50% lower than the daily average of either the preceding or the following month.

In Sweden, a system of minimum prices for both bonds and shares was introduced on September 1st. No sale quotation was allowed below the bid quotation of August 31st, and no bid quotation was to be recorded which was 10% or more in the case of shares, and 5% or more in the case of bonds, below the price of August 31st. The margin for bonds was later extended to 10% and in certain cases

to 12%. In order to make dealings possible, the minimum quotations had to be lowered from time to time, and the system was abandoned entirely on January 1st, 1940. The scheme seems to have been successful in preventing too sudden a liquidation of security holdings and too steep a fall in prices. But over a long period, the fall could not be prevented: the price of a representative 3% Government loan fell from $101\frac{1}{2}$ to 74 between the end of June and the beginning of January 1940, and its yield rose accordingly from 2 57% to 4.10%.

Another method was also tried in Sweden to check the decline of prices on the Stock Exchange. With Government approval, a "guarantee fund" of 25 million kronor was set up in October by sixteen leading banks and a number of financial and industrial enterprise for the declared purpose of supporting Stock Exchange values "in case of need"–in case, that is, of "an excessive and unreasonable fall in quotations". Similar action was taken in the Argentine by the Central Bank. At the beginning of September the Bank announced its willingness to buy certain specified Government and first class securities at stipulated prices. This measure may bear a superficial resemblance to the minimum-price systems described above but the difference between them is in reality fundamental, since the latter provide for no buyers at the permissible minimum quotations. The available returns of the Argentine Central Bank show no trace of any exceptional security purchases. It would seem that the announcement was sufficient to calm the market and to keep down the demand for liquid funds.

A quite different problem of Stock Exchange control which seemed to present itself in certain countries after the outbreak of war was the prevention of speculative purchases of industrial equities in anticipation of rising prices. Such purchases, in so far as they occurred, might seem to represent a movement in the contrary direction to the "search for liquidity", but they appear, on the whole, to have been part of a shift from bonds to shares rather than a shift from cash into securities. In fact, as will be seen later from Diagram 4, the rise in share prices which occurred in certain countries in the autumn of 1939 was, in most cases, only of short duration

In Denmark, with a view of discouraging share speculation, the restrictions on borrowing for the purpose of holding or purchasing shares were considerably tightened on September 12th. Previously while a certain percentage of the value of shares had always to be covered by the borrowers' own funds, there was no absolute limit to the amount he could borrow if the shares went up in price. Under the new regulations, such an upper limit was set at 80% of the nominal value of the share, while the precentage of the market value which could be covered by borrowing was fixed at 65%. Another Danish measure designed to check speculation was an increase in stamp duty under a law of September 21st.

In Greece, forward dealings in securities were prohibited in November, and, in the same month, the regulations governing such dealings in Italy were rendered more stringent. In the United Kingdom, according to the amended ruels adopted at the beginning of September, all dealings on the London Stock Exchange had to be on a cash basis. Of the countries mentioned, only Italy seems to

have experienced a substantial rise in share prices after September 1939. Neither in Greece nor in the United Kingdom did share prices show any general rising tendency in the latter part of 1939; and, in Denmark, after a brief advance in September, the movement was almost continuously downward, as will be shown in diagram 4.

(ii) Restrictions on Withdrawal of Bank Deposits

Only in a very few cases was it necessary to place restrictions on the convertibility of deposits into cash. This fact is significant as an illustration of the liquid position in which, on the whole, commercial banks found themselves at the outbreak of war.

In Denmark, a law was passed on August 31st, 1939, authorising the Government, until the end of March 1940, to limit withdrawals of bank deposits. Under this law, an order was issued, which came into force on September 1st, restricting the amount of deposits which could be withdrawn in cash from commercial banks, savings banks and other credit institutions to a maximum of 300 kroner per week for any individual depositer. It was officially pointed out that this was in effect a repetition of a similar measure adopted on August 2nd, 1914. In fact, deposits remained remarkably steady. During the three months between the end of August and the end of November 1939, only savings bank deposits were slightly reduced (from 2,281 million to 2,245 million kroner), and total deposits with commercial banks increased slightly (from 2,359 million to 2,434 million kroner).

In Finland, restrictions on savings accounts were introduced in October, but were alleviated in November in order to promote subscriptions to an internal Defence Loan.

In Palestine, a bank holiday was declared for the three days from August 27th to 29th, after which restrictions were imposed on the local banks as regards the proportions and maximum amounts of deposits which any individual depositer was allowed to withdraw. These restrictions were removed on September 24th.

In Yugoslavia, the banking system had not yet completely recovered from the effects of the post-1929 depression; and savings deposits were still subject to a moratorium dating from 1934. A general closure of banks and other financial institutions was ordered from September 2nd to September 7th, 1939. On the date of re-opening, September 8th, a decree came into force under which withdrawals from deposit and current accounts could be effected without notice up to amounts of 5,000 dinars, while, for larger sums, one to three months' notice had to be given, according to the amount involved. The decree provided for certain exceptions, especially for business firms having payments to make from their current accounts. Aggregate commercial-bank deposits in Yugoslavia showed an appreciable drop from 4,663 million to 4,504 million dinars during August, and further to 4,381 millions during September, but they recovered thereafter to 4,502 million dinars at the end of November 1939.

For the sake of completeness, it may be mentioned that September 4th was made a bank holiday in the United Kingdom The only purpose of this measure, however, was to permit the banks to adapt their organisation to the emergency and more especially to make the necessary arrangements for the introduction of foreign exchange control.

Nowhere did the public's demand for cash lead to involuntary banking closures on any extensive scale through failures or suspensions The only important case of bank failure occurred in Belgium in November 1939, when one of the leading commercial banks, the Credit Anversois, had to close its doors and go into liquidation Though the difficulties of this bank may have been brought to a head by the general movement of deposit withdrawals, reflected in a decline in total commercial-bank deposits in Belgium from 15,286 million francs at the end of June to 14,423 millions at the end of September, the deeper causes of the failure seem to have been largely connected with losses substantiated in the post-1929 depression.

(*b*) Measure to Increase Supply of Currency

(*i*) *Credit Facilities*

In contrast to 1914, no country resorted to any general credit moratorium in 1939. Such partial moratoria as were introduced were limited to persons. Measures of this kind were not applied only in belligerent States. In Switzerland, for example, permission was granted to delay the repayment of debts when the inability to pay was due directly or indirectly to mobilisation In Finland, a moratorium for mobilised persons, declared in October 1939, was made to apply also to taxes up to an amount of 8,000 markkaa.

At the beginning of the war, there was, in many countries, a tendency among traders, industrialists and shopkeepers to insist on the settlement of outstanding accounts and to demand cash payment where formerly credit terms were customary This, of course, was part of the general search for liquidity. Once the transition to cash terms was made, the system could continue smoothly. But during the transition, this tendency undoubtedly placed a strain on the credit structure, and in some countries, the authorities therefore took steps to discourage it. Thus, in France, a communique was issued by the Ministry of Commerce on September 26th stating that cash payments must not take the place of the current forms of commercial credit in use, especially in view of the extensive credit facilities which the authorities were making available and which made a general moratorium such as had been imposed in 1914 unnecessary. These credit facilities were described in a statement by the Ministry of Finance on September 29th It was provided that "bills of exchange discounted by the Bank of France which had remained unpaid as a result of the mobilisation could be retained by the Bank", if repayment could not be made without difficulty. "In case they had been repaid to the Bank of France by banks or dealers who had discounted them, they could once more be presented for discount during the entire duration of hostilities." It was further stated that the Bank of France had invited banks and drawers of bills of which the drawee was experiencing temporary difficulties directly attributable to the emergency (owing to evacuation, requisition, etc.) to renew or prolong the bills in question in whole or in part. The Bank of France, it was announced, was prepared to take up such paper for rediscount.

Similarly, in the United Kingdom, arrangements were made which rendered unnecessary any general moratorium such as was adopted in August 1914. A law was passed under the title of "Courts

(Emergency Powers) Act, 1939" giving full protection to any institution or person who was unable to meet his liabilities solely by reason of the emergency. To supplement the general provisions of the Act, arrangements were made immediately after the declaration of war whereby the Bank of England agreed to advance, in case of need, to acceptors whose bills were normally discounted in the London discount market, "the funds necessary to pay at maturity all approved bills accepted before September 3rd, 1939". These special advances to acceptance houses were to be available at 2 per cent. above the ruling bank rate, with a minimum of 6 per cent. It would seem that, in practice, no appreciable use was made of these facilities.

In Germany, credit relief measures were introduced in a number of different forms. In the first place, two decrees of September 18th and October 7th provided the legal basis for individual credit moratoria Under the former decree, commercial bills of exchange had to be prolonged, if the debtor so desired, by thirty days. The latter measure extended this optional postponement to all debts contracted before the outbreak of hostilities. In addition, various types of emergency credit were made available to industrial and commercial enterprises which were suffering from impaired liquidity owing to war conditions and were unable to obtain additional credit accommodation by ordinary methods. Businesses whose difficulties were due to such causes as the general mobilisation or the introduction of rationing* could obtain special bank credits through the intermediary of the "Oeffa", a State-owned "company for the financing of public works", which had gone into liquidation in 1937 but was now re-established for this particular purpose. This institution undertook to endorse the bills in question and to guarantee 95 per cent. of their value, which made them eligible for rediscount at the Reichsbank. Another type of credit instrument was provided for firms having to finance a rapid and extensive change-over in output and organisation to war requirements. Such firms were supplied with two to three months' promissory notes of the army (Wehrmachtverp flichtungsscheine) which, though not eligible for rediscount, could be used as collateral for bank advances Thirdly, firms having long-term capital investments to make as a result of war requirements could obtain bank loans by applying to State-controlled Industrial Bank (Deutsche Industrie-Bank), which like the "Oeffa", guaranteed the bills in question and made them rediscountable and thus acceptable to the ordinary banks. The cost of "Oeffa" credits worked out at 6·9 per cent. and that of credits arranged through the Industrie-Bank at 5·9 per cent., that is, in both cases somewhat higher than the cost of normal credit facilities. Further, a public company named Luftfahrtkontor was specially entrusted with the provision of credits to the aircraft industry; one of the big Berlin banks, the Reichskredit, A.G., undertook to make advances against claims otustanding in enemy countries; and a new Export Credit Bank was set up to finance export firms.

* This factor seems to have been especially important, for example, in the retail trade in textile goods, where sales were severely restricted by a system of "buying permits" for some months before ration cards were introduced for these goods.

(ii) Provision of Additional Currency: Special Forms

Bank-notes of larger denominations than those in common use were in some cases put in circulation to satisfy the demand for cash on the part of banks and members of the public. Thus, in Finland, new notes of 1,000 markkaa were issued in October; and the Swedish Riksbank began to issue notes of 10,000 kronor at the beginning of September.

But it was a shortage of small change rather than of any other form of currency which, as in 1914, made itself felt in many countries at the outbreak of war in 1939 There were several reasons for this The temporary rise in the volume of retail purchases, or at least the desire to be ready for such purchases, was probably one of them. Mobilisation for military service and evacuation of civilians also played a part in some cases, since the number of independent small cash holdings was thereby increased. In a number of countries, furthermore, the public showed a tendency, as in 1914, to hoard coins —and more especially silver coins—for their value as metal.*

The amount of coin held by the central bank accordingly showed a sharp decline in many countries In Germany, for example, it fell from 168 million marks on August 23rd to 63 million marks on September 7th: in the Netherlands, it dropped from 16·8 million gulden on August 28th to 5 6 millions on September 11th. In both these countries, new coins were minted to meet the public demands.† In Finland, the amount of small coins is known to have been increased in October The Hungarian Government, in September 1939, issued silver coins to the full amount of 120 million pengo fixed as a maximum by a decree of November 1938; additional amounts of base-metal coins were also put in circulation In Roumania, the minting of new coins of a nominal value of over 2,500 million lei was

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* This tendency would probably have been less marked if the public had been fully aware of the great change in the market position of silver which has taken place since 1914. Largely owing to the increase in world production of such metals as copper and lead, of which silver is a by-product, the value of silver has suffered a considerable decline The last part of this decline occurred at the beginning of July 1939. At that time, the monetary powers of the President of the United States were renewed for another two years These included, in adddition to the power to devalue the dollar to 50 per cent of its old value and to maintain the Exchange Stabilisation Fund, the powers conferred on him by the Silver Purchase Act of 1934 Simultaneously, however, the United States Treasury reduced its buying price of imported silver from 43 cents per fine ounce. The New York market price of silver has remained at that level since July 1939 Compared with the average price of a little over 60 per cent. per ounce which prevailed in 1913, this represents a reduction of over 40 per cent. In terms of commodities, whose dollar prices have risen on the average by some 10 per cent. in the meantime, the reduction in the value of silver is even greater; and it is still greater in terms of gold, whose dollar price is 70 per cent. higher than in 1914. At the end of October 1939, the British and Indian Governments prohibited the import of silver except under license. In view of India's importance as a consumer of silver, this measure tended further to weaken the silver market Apart from the fall in the price of silver, there has been a tendency towards a reduction in the silver content of coins. The latest example of this is the decision made by the Indian Mint in February 1940 to reduce the fineness of certain classes of silver coins from 11/12th to ½ (that is, to the same fineness as British silver coins)

† In the case of Germany, according to the quarterly reports of the Mint, the total of coin in circulation rose from 1,938 to 2,067 million marks between the end of June and the end of September 1939.

authorised in September. In Belgium the maximum issue of token coins and Treasury notes of small denominations, fixed at 1,500 million francs in 1935, was raised to 1,750 millions in January 1940.

Another means of meeting the need for small change was the issue of paper notes of low denominations. Thus in Switzerland the National Bank began to re-issue the five-franc notes which had been withdrawn shortly after the end of the war of 1914-1918. In Germany, small Rentenbank notes, which, according to the Rentenbank Law of 1924, were being gradually withdrawn, were again issued under a Decree of September 4th. The five-mark notes wihch appeared in circulation bore the date of January 30th, 1937. Notes of one and two marks were also issued. The total amount of Rentenbank notes held outside the Reichsbank rose steadily from 371 million marks on August 23rd to 640 millions at the end of September and 967 millions at the end of December 1939.

In the United Kingdom, additional currency was provided in the form of postal orders which, as in 1914, were declared legal tender under the Currency (Defence) Act of September 1st, 1939. Being available in denomination up to 21 *s*, they were primarily intended to meet the possibility of a lack of small change arising from large-scale evacuation and possible dislocation of transport. As they are lighter to transport than coin, and were already distributed and available at Post Offices throughout the country, they were well suited to their purpose. The amount of postal orders actually used as cash does not, however, seem to have attained large proportions. Thus it is known that of the £149·7 million of till money held by the London clearing banks and their provincial branches at the end of September, postal orders accounted for only £0·7 million or less than 0·5 per cent On the assumption that they constituted a similar percentage of the cash held by the public, their total issue has been estimated at little more than £3 million.* Supplies of coin proved to be adequate, and, by Government decision, postal orders ceased to be legal tender from December 21st, 1939.

In some countries, certain kinds of coin were withdrawn from circulation and replaced by paper currency In Germany, two-mark silver pieces ceased to be legal tender on January 1st 1940. In France, ten- and twenty-franc silver coins were withdrawn and replaced by notes of the Bank of France in September, while the five-frank nickel pieces were replaced at first by notes and later by bronze-aluminium coins of the same denomination.

(*iii*) *Provision of additional Currency: General Measures*

The war-time expansion of currency was largely brought about by Government borrowing from the banks But changes in the regulations governing the issue of currency were necessary in a number of cases in order to make such expansion and such borrowing possible. Despite the far-reaching changes which had occurred since 1931, the issue of domestic currency, in the great majority of countries, was still linked up at the outbreak of the war, in law if not in fact, with the country's central stock of international means of payment—that is, in the main, with its stock of gold; and this link constituted a limitation—though, in some cases, only a remote one—on the expan-

* *Cf. The Economist*, November 25, 1939, page 295.

sion of currency. The object of a whole series of measures taken in European countries during the first few months of the war was to loosen this limitation or even to remove it altogether. The actual or prospective increase in note circulation, however, was only one reason for such action. Another was the actual or prospective decrease in European gold reserves due to increased purchases from overseas or, where the exchange remained unrestricted, to transfer of capital funds.

Apart from Germany, where the practice followed since 1933 was confronted by law in June 1939, the most drastic dissociation of the note issue from the gold reserve was carried out in the United Kingdom. At the beginning of September, all but a nominal amount of the Bank of England's gold reserve was transferred to the Exchange Equalisation Account, and the Bank's fiduciary issue, covered by Government securities, was raised by an amount equal to the value of the gold thus transferred. The whole note issue—apart from the nominal £0·1 million still backed by gold—thus became "fiduciary". But the events preceding this measure also deserve notice It will be remembered that, under the Currency and Bank Notes Act, passed in February 1939, the Bank of England's gold reserve was to be valued week by week at the current market price of gold The abandonment of the dollar "peg" by the exchange authorities on August 25th and the subsequent depreciation of sterling led to a rise in the price and to an increase in the value of the Bank's gold. This permitted the Bank to effect a corresponding increase of its note issue at the very moment when the emergency demand for cash was particularly heavy. The following figures from the Bank's weekly return clearly reflect these events:—

Bank of England: Gold Reserve and Note Issue

(£000,000's)

1939		Gold in Issue Department	Valuation price (shillings and pence per fine ounce)	Fiduciary issue	Total issue	Of which	
						In Circulation	In Banking Department* ("Reserve")
			s. *d.*				
August	23rd ..	246·4	148 6	300 0	546 4	508·1	38·3
"	30th	263·0	158 6	300·0	563·0	529·5	33·5
September	6th .	0·1	168 0	580·0	580 1	549·9	30·2
"	*13th* ..	0·1	168 0	580 0	580·1	553 5	26·6
"	20th	0·1	168 0	580·0	580 1	546·5	33·6

* The so-called "Reserve" also includes small amounts of coin. These are excluded from the figures shown above.

The transfer of gold to the Exchange Account was made shortly before the September 6th return was drawn up. At that moment, the value of the Bank's gold had risen to £280·1 million of which £280 million was transferred. The simultaneous increase of the fiduciary issue to £580 million proved sufficient to meet the drain

of notes into circulation, which, as the figures show, reached a maximum on September 13th.*

In France, a change in the currency regime was made in the same direction; and although it did not affect the Central Bank's balance-sheet, it was in some respects even more drastic A Decree of September 2nd abolished, for the time being, the obligation imposed by law on the Bank of France to maintain a gold reserve equal to at least 35 per cent of its notes circulation and current accounts. The legal restriction placed by the reserve ratio on the issue of notes was thus removed. In contrast to the United Kingdom, where the Central Bank's note issue continued to be subject to a statutory maximum, no legal limit remained in operation in France.

Reserve requirements were relaxed in two other countries In September, the minimum reserve ratio of the National Bank of Roumania was lowered from 35 per cent. to 25 per cent. (the percentage recommended by the Monetary and Economic Conference of 1933), as the actual ratio was approaching the former figure, owing to the rise in the note circulation. Only gold was to be used as cover under the new regulations; but, as little or no foreign exchange had been so used previously, the additional margin of expansion was substantial In Lithuania, an amendment to the Central Banking Law adopted in November created a quota of 36 million litas of notes which could be covered entirely by domestic securities The rest of the note issue continued to be subject to a reserve ratio of one-third † It was officially explained that this measure was necessary as a result of the annexation of Vilna.

In a number of countries, the margin for currency expansion was extended by the revaluation of the Central monetary gold reserve. This revaluation was, in certain cases, carried out for the sole purpose of permitting reserve requirements to be calculated in a different manner, without affecting the balance-sheet of the Central Bank and without giving rise to a revaluation profit. This was notably the case in Yugoslavia, where the National Bank was authorised in October to calculate its reserve ratio on the basis of the "real value" of its gold reserve (*i.e*, 3,179 million dinars as compared with a book value of 1,987 millions), the legal minimum ratio remaining unchanged at 25 per cent. In Sweden, where the gold reserve used as cover was still booked at the pre-1931 legal parity and where gold held abroad was excluded from the cover reserve, the Riksbank

* The general trend of these measures was in harmony with the recommendations of the Macmillan Committee. In its Report published in 1931 (*Report of the Committee on Finance and Industry*), it pointed out that "... the effect of enforcing the principle of the fiduciary issue is to forbid the Bank of England to use by far the greater part of its gold for the only purpose for which it is held or could be used" (p. 139), "the sole use of a gold reserve to-day" being "to enable a country to meet deficits in its international balance of payments" (p. 122). It suggested that " .. any precautionary limits which it may be thought advisable to set to the Bank's power of note issue should be settled independently of the amount of gold which it is required to hold" (p. 142) More specifically, the Committee recommend "an absolute maximum subject to modification from time to time by law or by Treasury Minute" as being "the best form of limitation on the discretion of the Bank of England in regard to the volume of its note issue" (p. 142).

† At the end of November, the total note circulation amounted to 163 million litas.

was empowered at the end of January 1940 to count the whole of its gold as cover for notes, and to count it at the full market value. There again the revaluation applied merely to the calculation regarding the right of note issue, and so did not result in any accounting profit in the bank's balance-sheet

In Sweden, this was only a precautionary measure, as the Riksbank's unused right of note issue was still considerable even under the previous rule The position was different in Norway. In October 1939, the Bank of Norway issued a public notice against the hoarding of notes, and rendered compensation for lost notes subject to more stringent conditions Yet the note circulation remained high and began to exceed the Bank's right of issue, so that the statutory tax on excess issues came into operation in favour of the State. In February 1940, the Banks' cover regulation were accordingly altered so as to create a free margin for a further increase in the note issue. But, instead of writing up the gold stock, as was done in Sweden, it was simply decided that the existing book value of the gold reserve could be used as cover for twice the amount of notes instead of an equal amount as hitherto. For the purpose in question, this measure was, of course, exactly equivalent to a revaluation of the gold stock.

It has been shown above how the revaluation of gold helped to relieve the strain on the Bank of England's note issue in the two weeks following August 23rd. Mention may also be made of the revaluation of the gold stock of the Netherlands Bank in January 1940, but it does not appear that a widening of the Bank's note-issuing power was the main purpose of this measure. The revaluation yielded a book profit of 221 million gulden, of which more than half was credited to a fund for meeting the cost of mobilisation. The price at which the gold reserve was revalued (*i.e.*, 2,009 gulden per fine kilogramme, as against the old parity of 1,647,50) correspond to a decline of 18 per cent in the gold value of the gulden, as compared with an actual decline of 22 per cent. since the suspension of the gold parity in 1936.

The New Zealand Government was authorised by a law passed in October 1939 to suspend or vary the reserve requirements of the Central Bank and to revalue the Bank's gold stock at the market price; but, up to the time of writing, no action appears to have been taken under this law.

THE FUTURE OF GOLD

I

The time may seem well past to recall the faint echoes of the gold scare of 1937. Yet they have been rumbling intermittently in the United States during the two years since it reached its climax. With every fresh wave of gold brought to the American continent by political unrest in Europe, the kind of questioning which lay at the root of the gold scare has been resumed. How long is this abnormal accumulation of gold to continue? Is the outside world getting out of a commodity which has ceased to have value and utility "on the back of Uncle Sam?" Is it not true that foreigners are getting shares of productive industries in the United States in return for gold which has become useless to them? It is fortunate that these doubts and suspicions have not been left to rankle. Instead they have been clearly expressed in a detailed questionnaire sent by Senator Wagner to Mr. Morgenthau, Secretary to the United States Treasury. In his recent reply, Mr. Morgenthau has provided the most concise statement yet published on the attitude of the present Adminisration towards gold policy.

The relevant questions put by the Senator Wagner were: "Why does not the Treasury stop buying gold? Of what use to us is this large stock of gold? What action should be taken with respect to the gold situation? Is it true that the power to devalue the dollar operates to undermine the businessman's confidence so as to deter him from making loans and investments in the United States?" The answers to these questions are a model of lucidity and sound reasoning and provide a contrast to the evasiveness which too often characterises the answers to these questions on monetary policy in the House of Commons. Mr. Morgenthau leads up to his statements on policy by explaining the origin of the abnormal gold inflow in the United States and shows that, up to the end of 1937, the inflow of capital provided the dominant factor in the net imports of gold but that, during 1938, the favourable balance of visible trade was primarily responsible.

Having established these influences governing the inflow of gold, Mr. Morgenthau has no difficulty in proving that, if in order to stop gold from coming into the United States, the Treasury simply announced to the world that it would not buy gold for the time being, the foreign exchange and bullion markets would immediately be thrown into a confusion from which no country would benefit. To the related question whether the price of gold should be reduced below the figure of $35 an ounce, Mr. Morgenthau replies most reassuringly. If the drop in the price were modest it would merely create the expectation of further slight reductions, would lead to bull speculation in the dollar and thus intensify the inflow of foreign capital—the very phenomenon which the change in price was designed to arrest. If the drop in the price of gold were substantial it might lead to an outflow of gold from the United States, but only at the cost of an appreciation in the exchange value of the dollar of which "the effects on our economy would be little short of disastrous".

Mr. Morgenthau points out how seriously U.S. export trade has apparently been hit by the appreciation of the dollar by some 5 per cent over the past year and, given the marginal character of export trade in the economic activity of the country, leaves it to the imagination of his questioner to decide how that activity as a whole would be undermined by a sudden 40 per cent. appreciation in the exchange.

Mr Morgenthau fully admits the unsatisfactory character of the alternative before the American authorities. "We should like to receive less gold and even to get rid of substantial amounts of the gold we already have", he writes, but adds, that there is no acceptable *alternative to the policy* the Government has been pursuing. All the proposals examined to deal with this gold influx have involved a remedy which was worse than the disease "The best way to reduce our gold flow", he concludes, "is for us to have full recovery so that our imports will rise more rapidly than our exports"—an unexceptionable statement of opinion which seems to belong to an almost vanished pre-nationalistic and pre-mercantilist world.

These answers are highly important. However "inconvenient" the inordinate inflow of gold may be, it will not be arrested by any tampering with the dollar price of the metal. If the U S. Government desire to retain the powers now vested in the President to vary that price, it is because in the currency instability to-day such powers must be available as an answer to possible external developments. Moreover, they must be available in a form which can be used rapidly and without advertisement to the world, which would result if matters of the kind had to undergo Congressional discussion. In a world of potentially unstable changes, the power of varying the dollar price gold is a factor towards stability. Far from undermining domestic and foreign funds to the United States and by the inordinately low yield basis on which long-term U S Government bonds are now valued.

The readiness of the United States to continue receiving the stream of gold which current trade and capital movements necessitate is based not merely on the dislike of the available alternatives. It also rests on a genuine appreciation of the value of gold and on the belief that it will continue to function as a standard of international payments Mr. Morgenthau admits that the United States has enough and more than enough gold to serve as backing for the note circulation. But he is unwilling to follow the arguments of those who suggest that this accumulation of redundant gold may proceed to the point at which the country will be "stuck" with enormous reserves of a metal which no one else wants. He is not misled by the bilateral trade treaties, clearings and barter agreements, adopted by countries operating with little gold or foreign exchange, into believing, as some preach, that gold is rapidly becoming obsolete On the contrary, after viewing the clumsiness with which these devices operate he concludes that "there is no one thing which demonstrates more effectively the superiority of gold as a means of settling international balances than the experience of these countries that have tried to get along without it" Though Mr. Morgenthau does not develop the point, it has become clear that the utility of gold has never been so apparent as to-day, when the whole world is off the gold standard. Before the war, when half a century of the international gold standard

had accustomed the civilised world to exchange stability, based on what was virtually a sterling standard, it might have seemed feasible to separate that stability from its metallic basis, and to make sterling itself the acknowledged, as well as the practical, currency standard. To-day, the position has altered fundamentally. There is no longer sufficient inherent confidence in any single currency to allow it to function as an international standard, independently of provisions ensuring its convertibility into gold The fact that this convertibility may no longer be effective on the basis of a fixed parity does not alter this fact For example, the degree of exchange stability which the Tripartite agreement provides depends wholly on gold for its functioning. Were it not for the provisions which enable each adherent acquired in the course of its official operations in the foreign exchange market, the whole technical machinery of the agreement would not even begin to function So long as gold is the one commodity against which no tariffs or quotas will be raised, it will remain essential to the free functioning of any system of international trade and finance. It is on the knowledge of this fact, allied to a confident belief in the further development of a system of free multilateral trade, that the United States gold policy is based It is not a *pis aller* reluctantly accepted for fear of even more unpleasant alternatives, but a constructive policy designed to consolidate the position which gold holds in the economy of free nations. The assurances to this effect contained in Mr Morgenthau's letter should set to rest any rumbling echoes of the great gold scare. This does not mean that we have seen the end of rushes into and out of gold But in future these are likely to be governed more by political than economic considerations The anchor of the dollar price of gold seems as safely secured as it can be in the world of to-day. The recent flight from gold into dollars was in fact a compliment to the former, since it was based solely on the belief that, in the event of war, Governments would make it their first concern to acquire—forcibly if necessary—all privately held gold deposited in their countries. That kind of gold scare may occur again and need occasion no concern. But its more dangerous prototype should be a thing of the past, so long as the U.S Treasury holds fast to its present views.

II

In all its external aspects the problem of gold and, in particular, of its international distribution, has shown no change during the current year. The world production of the metal continues to expand while the stream of gold movements is still flowing strongly to the United States, not merely taking with it the whole of the current production but steadily eroding what remains of he monetary gold reserves in other countries. The monetary gold stocks of the United States have reached the total of $21,775 millions, an increase of $4,131 millions since the beginning of this year. In 1939 the increase in these reserves amounted to $3,132 millions, the largest up till then recorded in any one year. That record accretion has already been left well behind From holding about 70 per cent. of the total monetary gold reserves of the world at the end of 1939, the United States is likely to control some 80 per cent. by the end of this year.

But beneath the monotony of this international flow of gold the

character of movement has changed fundamentally over the past twelve months. From being primarily a reflection of massive movements of capital to the United States, it has become largely the result of commercial transactions The strict control of the capital markets, applied in all belligerent countries where such control was not already operative on the outbreak of the war, immediately dammed by far the greater part of the flow of capital into the United States. The German occupation of the neutral countries of Western Europe completed the process. Some capital investment in the United States is admittedly being made on the initiative of the British Government, and some erection and extension of industrial plant is being financed from this side. But the amount involved is much less than the total of the flow of gold or even than the proceeds of sales of dollar securities made on British account in the United States. On capital account, therefore, the non-American world is almost certainly realising its past investments in the United States rather than sending fresh capital there; without a control of capital the inflow of gold into that country would have been even greater during the past year than it has in fact been.

This change in the character of the gold inflow is of great importance in assessing the problem of the ultimate international redistribution of that gold. For gold that makes its way to the United States against an export surplus has gone there on a single ticket. It is not necessarily there permanently, but it will need an altogether new set of transactions—whether commercial or financial—to send it on its return journey On the other hand, the gold which has accrued to the United States Treasury as a result of the movement of capital of the United States has taken its return ticket with it. In so far as foreign capital remains on deposit in the American banks or is invested in realisable American securities, it might always be tempted back by the re-establishment of stable conditions in Europe, the emergence of a favourable differential in interest rates or a better prospect of appreciation in value, all of which, we must hope, are post-war possibilities.

These return-ticket possibilities should not be left out of discussion of the gold problem. From the beginning of 1935, when the United States Treasury began its computations of the international capital transactions of the United States, until the end of last June (the latest available figures) the net inflow of capital into that country has amounted to $5,377·3 millions, which may be set against net imports of gold of $12,734·5 millions in the same period. Of this total inflow of capital, $2,716·6 millions was due to an increase in foreign banking funds in the United States. Nearly half the inward movement of capital was thus represented by the most volatile type of funds whose departure may, and given the necessary conditions will, occur with the same alacrity, as their arrival. For the rest, another $1,092·0 millions represented foreign purchases of dollar securities. In addition there was over this period, a decrease of $684 millions in United States banking funds abroad, while foreign securities were sold by United States investors to the tune of $785·7 millions There is thus, in the volume of foreign capital at present invested in the United States, a factor potentially capable of remedying a considerable part of the existing uneven distribution of gold.

There is another important factor which, in normal times, might help to redress the balance. As long as the bulk of the gold inflow in the United States was the counterpart of a movement of capital there was no inherent reflationary or inflationary virtue to be found in it. Admittedly the monetary reserve increased, and the excess member bank reserves tended to follow suit But the inflow of gold gave rise to no increase in the total stream of demand for goods in the United States, and the level of dollar prices obstinately refused to obey the dictates of the Quantity Theory. The history of the past decade in the United States has provided the most complete refutation of the mechanistic crudities of that theory. Indeed, in so far as gold-producing countries such as Canada sold their output to the United States dollar debt, the inflow of the metal provided a vehicle for disinvestment and was a positively deflationary force. Hence, the steady accumulation of gold in the United States failed altogether to create that automatic corrective of a rising price level, a discouragement of exports and an encouragement of imports, which the classical theory of foreign exchanges prescribed. But the present inflow represents a surplus of exports; it is a net addition to the effective internal purchasing power of the United States and might be expected, in normal times, to have the classical effect.

Both these reasons for hoping for a self-correction of the present gold position, however, are increasingly academic in wartime. Most of the foreign capital in the United States belongs to Allied countries who will be using it, and perhaps using it up, in purchases of munitions. Any tendency towards rising prices in America is likely to be outbid by the soaring prices of the belligerents. And even if this were not so, there can be no question of "discouraging" American exports when they are needed to wind the war. If the war were to stop to-day and stable conditions in Europe to be instantly restored, there would undoubtedly be a return flow of gold. By the time the war does actually come to an end, with or without the immediate restoration of normality, the reasons for a further flow will have exhausted themselves.

There will, then, be a "gold problem" of peculiar severity to meet after the war. So far as we can now judge, it will be very difficult indeed for any currency to "look the dollar in the eye". American industry will almost inevitably improve its competitive position during the war, and there will be many things needed or desired for the restoration of peace-time life that America alone will be able to supply. At the same time, we may well be faced with large accumulated surpluses of some raw materials and, in the others, the weakness of prices that will follow when an expanded capacity is suddenly bereft of the wartime demand that has created it. The longer the war lasts and the greater the destruction in Europe, the more insistent will be the demand for what America sells, and the weaker the markets in the things he buys Thus, on trade account alone, it will be difficult to balance the accounts. As for capital account, the restoration of conditions in which Europe will seem as attractive a field for the investment of capital as the United States is likely to lag by several years behind the conclusion of peace, freedom of movement for capital would, in all probability, lead to a renewed westward flow, accentuating the difficulties created by the purely commercial position.

The restoration of the freedom of the international exchanges is one of the Great Britain's war aims; assurances have been given to the United States Government to that effect. But the fact must be faced that an immediate restoration of exchange freedom would probably lead to an insatiable demand for dollars. Such portions of the world's gold reserves as are not already in America at the end of the war would flow there immediately. It is difficult to resist the conclusion that, at least for a transitional period, some control of exchanges will have to be maintained after the war. To restore the freedom of purely commercial transactions—the payment for current visible and invisible imports—is perhaps an attainable goal; but the movement of capital will, in all probability, have to continue under some restraint If this is so, there will inevitably be a tendency towards the creation of a number of currency blocs, grouped round each of the major currencies—a sterling bloc and a dollar bloc, but not between them. This will be in no way a desirable solution; but if the foregoing analysis of the probable state of affairs is correct, it will be unavoidable.

If all the world's gold is concentrated in the United States, and if the world is divided into currency blocs, with the balance of transactions within each bloc settled in currency and transactions between the blocs subject to control, does this mean that there will be no role for gold to play as the international settling medium? There are really two questions to be answered here: first, will there be any need for an international settling medium, and secondly, will gold remain the first choice for the job? It is very difficult to imagine a world—or at least such a world as an Allied victory would create—that could dispense with a settling medium It is virtually impossible to impose exchange control with such completeness that there are no balances to settle. Even the Nazi exchange control, with its endless complication and its savage penal sanctions, has not succeeded in exactly balancing Germany's external accounts, let alone her accounts with each individual country and there would certainly be no desire to enter on that path. Moreover, it has been suggested that commercial transactions might be substantially liberated, and they will give rise to balances requiring settlement. If exchange control is continued in any form after the war, it will not be with the object of producing an exact balance, but with that of reducing the balance to manageable proportions. There is a distinction between exchange control, which regulates and canalises a flow, and exchange clearing which aims to stop the international flow of money altogether.

But if there is to be an international settling medium, will it be gold? The answer must be that it is difficult to see what else it could be. Gold has had to bear the odium of a situation that would have afflicted any alternative medium We talk of a "gold problem", but what we really mean is a "dollar problem", and it is not any peculiar characteristic of gold that has led to its concentration in one country. If the cowrie shells had been the international settling medium, then four-fifths of the world's cowrie shells would by now have accumulated in the United States With all the prejudice against gold that undoubtedly exists, there is certainly no other substance that is likely to be as universally acceptable in payment of

debts, without tariff barrier or limitation of amount, as gold. (To suggest that the dollar itself could serve this purpose is, of course, pure confusion of thought. you cannot use dollars to meet a shortage of dollars.) Furthermore, there are powerful interests involved in retaining gold, whose value depends entirely on the monetary demand for it. The United States will not want to throw away such a fabulous investment; the British Commonwealth and Soviet Russia will not want to devalue a substance of which they are the largest producers. The Nazis have recently paid lip service to the role that gold is to play in their New Order and their assiduous cracking of vaults on the Continent has perhaps restored some vested interest in gold even in their case.

We have perhaps seen the end of gold standard—that is, of a fixed relationship between an ounce of gold and a unit of money—unless, as is not inconceivable, it is ultimately reintroduced as a means of stabilising the exchanges between the different currency blocs (though even such a restricted restoration seems very remote). But there is no reason to suppose that the world will not continue to find it convenient and necessary to make use of gold's services as the international precious substance.

III

Like the poor, the gold problem is always with us. With nearly 80 per cent. of the total monetary reserves of the world locked up in the capacious vaults of a Kentucky fortress and with the stream of gold movements still flowing towards the United States, the post-war gold problem seems one of abnormal complexity. Current discussions on the gold problem all emphasise the existing uneven distribution of gold and the high probability of the maldistribution becoming greater and greater as the war continues to drag on It is, no doubt, true that, at present, not only the current production of the precious metal but also the monetary reserves in most countries are being fast diverted to the United States. On a superficial view, therefore, the choice before the post-war world is between devising a monetary system in which gold will cease to play the role of international medium of payments and of the means of stabilising the international exchanges and accepting the handicaps and hardships of a lop-sided system of international finance.

So pessimistic a view, however, fails to take into account certain aspects of the character and composition of the gold accretions of the United States. For, beneath the monotony of this international flow of gold may be discerned a few features which have become prominent in the past year. The bulk of the increase in the gold holdings of the United States in 1939 was due to massive movements of capital From being primarily a reflection of the flow of capital, the gold movement is now tending to become more and more the result of commercial transactions. In 1940, control of capital markets in all countries, belligerent and otherwise, was complete, with the result that a large part of the flow of capital into the United States was held in check. In addition, there was the German occupation of most European countries completing the embargo on capital export. Thus, on capital account, far from sending fresh capital to the U.S.A., the rest of the world was rather realising its investments in that

country. And there can be no doubt that, but for the restrictions on the export of capital, the gold flow would have been much greater in the past year than it was ever before.

It is this change in the character of the gold inflow which holds out any hope that the ultimate international redistribution of gold need not be so difficult a task as is often imagined The difference in the implications of a gold inflow on account of the emergence of an export surplus and those on account of a movement of capital, needs to be carefully examined. The gold that represents an export surplus for America will not come back except in consequence of a new sequence of commercial and financial transactions. On the other hand, gold stocks representing the movement of capital are capable of a reverse flow, because the foreign capital deposited with American banks or invested in American securities can always be persuaded to come back to Europe with the return of stable conditions in that Continent after the war. The tasks of rebuilding a Europe utterly demolished by the Nazis will certainly hold out handsome attractions to capital, in the shape of a higher interest and of greater possibilities of capital appreciation.

Certain computations would greatly help to clarify these possibilities Between 1935 and the middle of 1940, the net inflow of capital into the U.S.A. according to the U.S. Treasury's official estimates of the international capital transactions of the United States, amounted to \$5,377·3 millions, as against net imports of gold, over the same period, to the tune of \$12,734·5 millions. Of the \$5,377·3 millions of capital inflow, \$2,716·6 millions was due to an increase in the banking funds of U S A.—thus, nearly half of the movement of capital into that country was represented by a type of funds which is real 'hot money' and may, therefore, be expected to leave the country as readily if it can have reasonable assurances of safety Then again, purchases of foreign securities is said to have amounted to about \$1,092 millions, while at the same time, the United States funds is known to have been swollen by the return of U.S. banking funds abroad to the extent of \$684 millions and by the sales by U.S. nationals of foreign securities to the tune of \$785 millions. Making these corrections to the total figures of the increase in funds in the U S., it will be seen that there is a large volume of foreign capital which is capable of being tempted out of that country and thereby provides a factor which can go a long way to reduce the existing maldistribution of gold.

Yet another factor capable of modifying the position further is that, though the gold inflow has not had any inflationary consequences, as would normally be expected, and U.S. price levels have not risen, the time may ultimately come when the latter may rise and thereby affect the volume of U.S exports. It is necessary to study this aspect a little more closely in the light of the history of the past few years. The bulk of the gold inflow was the result of a movement of capital. The Administration's greatest success was in its policy of effective segregation of the incoming gold from the credit structure. In fact, at one time, this policy was carried so far as to exercise a deflationary effect and the Administration had to release a portion of the neutralised gold. It is true that monetary reserves increased and excess member bank reserves went up. But the influx of gold

had no effect on the quantum of effective purchasing power in the country, and, hence, on the level of dollar prices. On the other hand, the sales of gold by gold-producing countries to the U.S.A. and the application of their dollar proceeds to the redemption of dollar debt was definitely deflationary in its incidence on the national economy, a fact which explains why the United States export trade did not suffer the handicap of rising prices.

It is, however, well to note that these trends are reversible. For one thing, with the colossal expenditures now undertaken by the Administration on the effort to help Britain and to place U.S. defence on an impregnable footing, it is more difficult now than before to avoid inflationary consequences. Already, there is a spate of discussion in the U.S.A. on the need for vigilance in this matter. Though the price level is the least of the factors that will determine America's balance during the war, the significance of rising prices should not be ignored. The effective operation of these factors in the gold position is severely circumscribed by the course and exigencies of the war. For, in the first place, most of the foreign capital now in the U.S.A. may be increasingly utilised by the governments of the Allied countries in paying for the war material and ammunitions they buy from America. And, secondly, the prospects of America's export surplus undergoing a reduction are, to say the least, meagre, because the war cannot be won except by such exports on an increasing scale. They cannot, therefore, be discouraged by such economic forces as the incidence of rising price levels on exports or the manifestation in the near future of an inflationary trend in America.

If we give to these exigencies of the war the importance due to them, it will be seen that the post-war gold problem must remain a formidable one. And in so far as it is now possible to foresee currency relationships in the uncertain world of that future, we may say that the other currencies will not be able, so to say, to look the dollar in the face. By the end of the war, American industry will have improved its competitive power to fresh heights, and there would be many things needed for peace-time life which the U.S.A. alone would be in a position to supply. On the other hand, the rest of the world would, in the same period, have impoverished itself either through the fall of prices or restriction of production in consideration of the shrinkage of markets therefor The weakening would also be further felt in the non-American countries when the stimulus provided now by the war demand is no longer there. Thus, a strengthening of America's economic power and a weakening in the same in the case of the rest of the world together cause an unbalance on trade account such as will not be easy to redress. On top of that, if, in the close of the war, capital should flow back to Europe, the difficulties on commercial account would be increased much more.

In a previous paragraph, we alluded to the position of immense advantage in which the dollar would stand *vis-a-vis* other currencies. It is interesting to speculate on the degree of freedom which one can visualise for international exchanges in the post-war period. Britain has pledged herself to the restoration of their freedom as part of her peace aims. It is however, inconceivable how such freedom is possible and how, even if it is, it can be in the best interests of world currencies. For, immediately on the restoration of the freedom of exchanges,

there is bound to arise such an enormous and irrepressible demand for dollars that even the few amounts of gold left in the currency reserves of countries would immediately find their way to America, thereby worsening the position further. All things considered, there seems to be no escape from the conclusion that, after this war, at least for a transition period, some degree of exchange control will be inevitable and necessary. The restoration of free commercial transactions and of the liberty of payments for imports visible and invisible, is, no doubt, very laudable. But, in regard to movement of capital, it is difficult to resist a feeling that the movement of capital will, and must, continue to be under duress. Such a state of partial freedom for international exchanges will, perhaps, result in the creation of currency *blocs* grouped around each major currency. There might be a lot of latitude permitted to members with each currency group, but the measure of freedom of transactions between the currency groups, themselves would be of a limited character.

In such circumstances—with the U.S A. holding nearly nine-tenths of the world's gold, and with alignment of world currencies along currency *blocs* with greatly restricted freedom as between the currency groups themselves—the role which gold may be assigned seems one of limited importance. The question that arises, therefore, is the chances of gold continuing to be the international medium for settling of accounts.

At the outset, may be mentioned the extreme unlikelihood of the world ever dispensing with a medium altogether for settling international transactions. Nor is it likely that exchange control can be so rigidly and so successfully applied as between countries that no balances will remain on the transactions. It is enough to mention that even Germany has not succeeded in working exchange control to such perfection that Germany's external accounts are settled completely. In any case, after the war is over, commercial transactions will tend to increase greatly, and leave large balances to be settled. If at all any form of exchange control is continued after the war, it will be more with a view to regulate and canalise the flow of balances rather than to stop international clearing of money on account of transactions on commercial as well as capital account.

As for the continuance of gold as the international settling medium, there are very strong reasons why gold cannot be displaced. But, before we pass to them, it is necessary to stress the fact here that gold has been quite unnecessarily saddled with the blame for a state of affairs which would have been brought about by any other medium. If pebbles had been the medium of world transactions, four-fifths of the world's stocks of pebbles would still have gone to America. Moreover, there are powerful countries interested in the preservation of the present monetary status of gold. The United States alone has invested a fabulous amount of money in its gold stocks and would not allow any relegation of the precious metal to unimportance. Then again, there are the Empire countries and Russia, whose output of gold is considerable and who will hardly permit any monkeying with the international status of gold. After all, despite the prejudice against it, there is no other article which enjoys the same advantages nor the same universal acceptance for settling debts. By every criterion, therefore, the importance of gold in international finance

can hardly diminish, even though the immense concentration in one country gives rise to so many complications in trade and monetary management.

All that can be hazarded is that we have probably seen the end of the gold standard In the early years of the post-war period, at any rate, fixed relationship between a unit of gold and a unit of money will be impossible to revive. Nor will any country bother unduly about it when its problem would be one of finding dollars. The so-called gold problem will really be a dollar problem. Mr. McKenna may be right, in a sense which he probably did not suspect when he said that the world is on a dollar standard.

IV

The place of gold in the second world war, while it will, no doubt, form the subject of many new publications in post-war times, seems to attract but little attention while the war is on. Now and again, we hear of changes in the foreign exchanges, such as the linking of the guilder to sterling, of movements of gold such as Mr. Morgenthau referred to in connection with supplies to Russia We hear, too, of speculation about the fate of the gold reserves of the Bank of France, of America's action in blocking the assets of European countries which have fallen under the Nazi yoke. But all these reports have more of political rather than economic or financial significance. The pre-war picture of the position of gold remains essentially unaltered. That picture is one of America experiencing an unceasing influx of gold. The one-way traffic still continues in a metal which is meant to be distributed all over the world and to keep shifting from place to place so as to keep the equilibrium of trade among the nations. The U.S A. has no relief from the problem of regulating this impact of gold on her internal currency and credit. That problem is even more complicated to-day, now that America has to multiply her productive activity in order to discharge her functions as an arsenal of democracy. The latest report that another effort at the prevention of inflation has been made by the Federal Reserve Board and that the reserve requirements of member banks are to be increased to the present statutory limit is almost reminiscent of the days before September 1939

The question, therefore, necessarily suggests itself: What sort of gold problem will the post-war world have to face? So far as the war period is concerned, there is a fair certainty that the problem will not be allowed as such to obtrude into the picture. For the world to-day is not a collection of desparate nation-states trading amongst themselves on a more or less business basis. On the other hand, it is sharply divided into two opposing groups, one of which is bound up with Britain and the other associated with Nazi Germany in varying degrees of subservience. Nazi Germany has solved the gold problem by a practical and effective denial of it. Economic totalitarianism enables the authorities to dispense with the gold backing for a token currency. Political power is ample compensation for popular confidence and when payments had to be made abroad, Dr. Schacht's jugglery stood the Nazis in good stead. The position cannot be far different in the countries which Germany has conquered or occupied Of the currency system in the occupied

countries, there is little exact or reliable information. But all reports are agreed that the currency is under the control of the Nazis and no compunction is felt in the matter of additions to paper currency. After all, a plunder economy has no need for gold, though it may well have a use for it, if it should by some chance become available. The Nazi machinery of war needs no gold, either as fuel or as lubricant. And with no neutrals outside the lands under her control to trade with, Germany can go on or meet her doom without ever feeling the pinch for gold.

Britain's position is only slightly different For, while the exchange problem, no doubt, remains with all its intricacies, complexities and urgency, the basis of American aid to Britain has been changed from the curt cash-and-carry basis of old. The idea that the war is Britain's affair and that for every material sent to Britain payment must be satisfactorily provided for is dead. The Lease and Lend Bill prescribes a few conditions to be satisfied. But who can doubt that payment will not be allowed to stand in the way of urgent aid being despatched overseas? And when the U.S.A. has a similar attitude to other democracies, the anti-Nazi camp, too, is bound to enjoy a fair degree of freedom from worry about gold. Soviet Russia would, however, seem to be differently placed. It has been announced more than once that supplies to Russia will not be under the Lease and Lend Bill. As mentioned earlier, Mr. Morgenthau has made it clear that Russia has shipped to the U.S A. the gold necessary for payment for the supplies made to her If it is remembered that Russia is not only a totalitarian nation which can do without the usual gold backing to internal currency, but is a producer of gold—her gold production is a sixth of the total world production—it will be realised that Russia is no more likely to be obstructed by lack of gold in the prosecution of the war than any other antagonist of Nazi Germany.

If, then, war affords a respite from the gold problem, in the sense that but for the war there might have been gold scares of some kind or other, is it not also true that the war is postponing the evil day when the gold problem will be on us with all its pent-up force? It is easy to contrast what is happening now with what might have happened in regard to gold, if the war had not occurred or developed in the way it has The gold scares of the pre-war period would have occurred and/or the nations would have continued in their efforts to minimise their requirements of gold by eliminating the elements of uncertainty from their foreign trade and thus keeping the foreign exchange problem far more tractable than it would otherwise be As it is, the war has cushioned the effects of the maldistribution of gold on national and world economy, and at the same time serves to accentuate the maldistribution The war period is thus laying up a prodigious problem in regard to gold.

It is not of mere academic interest to speculate on the lines on which this problem may be solved in the post-war period. Obviously, there are two ways in which large-scale problems are solved, one, by the application of power which is necessarily political and, two, by the interplay of natural forces which always attempt to reach a new equilibrium. Experience teaches us that usually it is neither the one nor the other wholly, or rather, that political power and its

employment also form one of the natural forces which have to be reckoned with. In this context, the fact that a highly disproportionate stock of the world's gold has been acquired, willingly or otherwise, and held by the U.S.A. is by far the most important The power that has stood so resolutely between the other precious metal and its certain doom is by no means likely to suffer revolutionary changes calculated to deprive gold of its importance And mankind, too, is not so revolutionary that it can achieve radical changes in the monetary system overnight. While one may thus rule out any drastic changes, the narrow scope within which practical changes may be sought must be recognised. The U S A. did not acquire its present gold stock for a song and will not part with it for a similar intangible or inconsiderable value Gold can move out of the country only in settlement of temporary or more or less permanent adverse balance of payments. If the last war transformed the U.S A. from a debtor to a creditor country, and a creditor that, far from lending out more money only absorbs more gold, the present war is not likely to set an opposite tendency in motion The transactions between the U.S.A. and the rest of the world during this war are not such as to create debts for America which she can settle by the export of gold On the other hand, not only the one-way traffic will be continued, but every point on the road may well be like a valve which permits only influx but no efflux. Though scarcity is a necessary condition of value, the world cannot be persuaded to attach value to things it cannot possibly get.

The basis of any solution of the gold problem will, therefore, have to be the grant of credits on a large scale. But this idea will, in the conditions that we can foresee, create more problems than it can solve. For credits call for repayment. And even before the stage of repayment, it is important to remember, that loans represent capital and that every international loan involves not so much a movement of gold as the movement of capital goods. If all the capital goods that each such loan represents are acquired from the lending country, then the effect of such a loan on the distribution of gold will be altogether inconsiderable. It will thus be seen that redistribution of gold is to be effected, not merely by the grant of Amereican credits on a large scale, but by the distribution amongst a number of countries of the work of producing the capital goods represented by the loans. It is here that the international co-operation mentioned in the Atlantic Charter is of the greatest importance. The process might be viewed in this way: that credits are granted to the undeveloped or devastated areas of the world, that the work of producing the capital goods is distributed over a number of industrial countries and that thus the arteries of world trade will again be cleared.

It is not easy to envisage the circuit of gold, of credit and of goods in the conditions referred to above. But it may be said that the circuit will be smooth and even complete, in the sense that America can realise the interest on her loans, only if war debts and reparations do not reappear in any form to distort and mutilate world economy There is also another condition, namely, that loans are directly made to the needy countries without the creation of middlemen in international finance. International co-operation must be free of the taint of conjoint imperialism which we have good reason to apprehend.

How the power of the U.S.A. and her associates will be exerted, it is too early to say But it is certain that the movement towards obviating the need for gold will not die with the war and will continue in times of peace. For this movement is far older than the war. Dating from the Genoa Conference and the appeal for minimising the monetary use of gold, it has progressed slowly and surely. First, we had the gold exchange standard, then the lower reserve ratios and later a fluid ratio. The depression forced on the majority of nations not only the system of exchange controls, but also the system of quotas, bilateral trade pacts and international barter The growth of totalitarian tendencies has relieved governments of the fear of loss of confidence in the currency. Though we are assuredly a long way from the dethronement of gold, gold is no longer the absolute monarch of national or world economy. Lack of gold has lost its terror for the majority of nations; and failure to achieve better distribution of gold might well seal its fate as a monetary metal.

V

The future of gold is more and more widely under discussion. The role of gold in war economy has been adequately and unflatteringly assessed by the recent decisions of the United States, Canada and Australia to stop production in order to free labour and equipment for the production of baser but more essential materials. There may be special arguments for maintaining gold production in South Africa. The entire economy of the country is so intimately geared to this one form of enterprise But, for the rest, it seems to have been accepted, perhaps tardily, that the digging up of precious metals, except for industrial uses, should have as little place in a world war economy as the luxury trades which one after another are being stifled. The production of gold had a useful role to play as long as the United States remained neutral, and as long as the amount of gold offered to the United States had any effect on the volume of assistance we obtained from that country. But that justification was considerably dimmed from the moment the Lend-Lease Act was passed, and it was altogether extinguished with the United States' entry into the shooting war. It is true that Argentina, Sweden and Switzerland still show a distinct preference for gold and have lately converted part of their foreign exchange assets into it This preference is significant as a symbol of the esteem in which gold is still regarded. But it can hardly be argued that the cause of either belligerent side can be appreciably affected by its capacity to feed this minute neutral fringe with gold. For the duration of the war, therefore, the verdict—always excepting the very special case of South Africa—must be that the less gold is produced, the better.

It is, however, on the role which gold is to play in the post-war world that the main debate and the sharpest clash of views occur. Minds are now engaged on the task of shaping the grand design of the post-war monetary system. Whatever plan may ultimately be put into operation, it is certain (*pace* the Sound Currency Association) that it can involve no return to the monetary conceptions of 1925 The gold standard, as the text-books described it and in the semi-automatic manner in which it sometimes operated, died in 1914. Its painful and chequered resurrection between 1925 and 1931 was perhaps

part of the price which had to be paid for the understanding of economic realities. The lesson which should have derived from this interlude was not a distrust of gold as such, but a distrust of false parities, of the barren masses of international indebtedness created by the last war, of the economic nationalism, of the whole crazy pattern of economic contradictions which doomed the new gold standard—and would have made equally short work of any international monetary system.

Education did not stop at that point What has been learned since 1931, since the departure from gold and since the initiation by Germany of the vast armament drive which, without any gold, indeed without any of the visual orthodox basis of "sound finance", was to accomplish the most stupendous and concentrated public works programme ever achieved by any one nation? This further lesson can be expressed in one sentence: the dominance of finance over economics has been overthrown That dominance will never return, in that a concept such as a fixed gold parity will never be set up as the sole criterion of economic policy But the baby must not be thrown out with the bathwater. The wider objective of international economic equilibrium for which the gold parity stood as a symbol cannot be disregarded Some form of international monetary system is essential and any such system calls for discipline on the part of its adherents. The post-war system may ultimately involve a return to the free exchange markets which in the past achieved their task of clearing international payments with an efficiency and suppleness which no rigid bilateral clearing system could achieve.

But in the immediate post-war period, it seems almost certain that some measure of exchange control will be called for and that the operation of this control will make use of the technique of exchange clearing in which the wartime operations of the various currency *blocs* have provided much experience and led to many refinements. Whether the ultimate clearing of international payments is effected through a free market or through the reciprocal transactions of three or more currency *blocs*, some international standard of value and means of payment is essential. The national currency units must be expressed in terms of some uniform standard That standard must in turn be related to the means chosen to pay uncleared balances of international indebtedness; and strong arguments support the claims of gold to fulfil these twin functions. The most important, if at the same time the most imponderable, of these arguments is the reverence in which gold is still held over the greater part of the world. That feeling goes back to the birth of civilisation. It cannot be killed in a day. At this moment, gold is quoted in the free market in Bombay and in all the black markets of the world at levels ranging to twice the official dollar and sterling prices. There is no country in the world where it is not acceptable.

The alternative to gold or to some international unit of account based on gold would be one or other of the existing currencies—inevitably the dollar, in the post-war economic set-up—as the standard of international values and payments. There might well be grave political objections to such an appointment However dominant the dollar may become in the post-war currency world, and however complete may be the dependence of gold on the readiness of the United

States to buy it at a fixed price in terms of dollars, there are solid reasons why gold should act as the cloak under the cover of which the strong currencies play their part. In a recent address to the Swiss Bankers' Association, Mr. Per Jacobsson, the economist of the Bank for International Settlements, made this point with particular emphasis.

> Before 1914 it was one of the great advantages of the international gold standard that it effectively ensured voluntary discipline in the monetary policy of the various countries without it being necessary for their sovereignty to be restricted.

After this war, there will be greater need than ever to dissociate the ideals of economic co-ordination among nations from those of political hegemony. Gold may serve a very useful purpose in solving that crucial problem.

In any case, the decision to use or abandon gold in the post-war monetary mechanism is one that will not be taken without reference to the immense vested interests affected. However unfortunate such an admission may be, it will be a political as well as an economic decision. These vested interests can very briefly be defined: the United States holds four-fifths of the world's stocks of gold; the British Empire controls three-fifths of its current production It would be strange indeed if gold were found to occupy no place in the post-war currency system. But will gold continue to command its present currency price? There are strong arguments in theory for reducing the artificial price inducement which in a decade has raised the volume of annual gold production by 114 per cent., its value in terms of dollars by 182 per cent. and its value in terms of sterling by 227 per cent. A monetary system must be attuned to the dynamic character of the economic system which it serves. In the gold standard of the past, the production of new gold introduced an element of dynamism, though admittedly crude and arbitrary. But with an annual output now equalling about 5 per cent. of the accumulated money reserves, that dynamism may become a trifle too potent and wasteful. A good case can be made for restricting output, and this could most effectively be achieved by lowering the official dollar price as arbitrarily as it was raised ten years ago—with, perhaps, some compensation for the producing interests affected. This, too, is an issue which will be decided, on political as well as economic grounds. Whether it would be politically feasible for the United States to accept the paper loss in its vast reserves of the metal—the greater part brought at the current price—or for South Africa to close down its marginal mines are crucial questions

One aspect of the gold problem remains to be mentioned: that of the redistribution of the existing reserves. There is little chance of any kind of gold standard functioning as long as the existing maldistribution of the reserves exists; and there is no chance of its functioning at all as long as the forces which have made for this maldistribution continue to operate. The problem, in other words, is very largely dependent on the fiscal and foreign lending policies which the United States pursues after this war and on whether or not there are stable political conditions in Europe. If the tariff walls remain, if the United States return to financial isolation and if refugee capital resumes its flight from Europe, then, of course, the hope must be

abandoned, not merely of seeing any return of gold to the monetary scene, but of any stable international regime. Even if the gold, or claims to it, were redistributed as free gifts by the United States, it would, in the established conditions, merely return to its Kentucky vaults. Such a prospect, however, seems too gloomy a view to take of human intelligence It is surely permissible to hope that the end of the war will see the restoration of an international currency system, which may not indeed have the rigidity of fixed parities, but which will serve to maintain economic equilibrium between the nations. In such a system, gold must, assuredly, have a part to play. It may no longer be the arbiter of the volume of currency and credit and of the main objectives of economic policy. But it ceased to play that role at a much earlier date than most people imagine—certainly before the last war As a unit of monetary measurement, as a store of value, and as a means of ultimate payment, it is, however, likely to retain its place in the monetary picture—a "relic of barbarism" perhaps, but one which the world is unlikely to outgrow in this or the next generation.

STATISTICAL TABLES

Table I

Hyderabad State Bank Report for the Year ended Aban 1353 F.

The Reserve Bank rate and the Hyderabad State Bank minimum advance rate upon the security of H.E.H. the Nizam's Government Promissory Notes remained unchanged at 3 per cent. and 3½ per cent. per annum, respectively, throughout the year.

Exchange fluctuations were narrow and well within the limits fixed by Government, *viz.*, O.S. Rs. 116-117, the lowest point reached being O.S. Rs. 116-3-0 and the highest O.S. Rs. 116-12-0 but these rates ruled for very short periods only. For the greater part of the year rates were steady in the region of O.S. Rs. 116-10-6.

Economic conditions continued to be disturbed and various measures had to be adopted by Government to ensure effective "control" over the movement, prices and distribution of goods.

The Government Securities market has, on the whole, been firm and with the easy monetary conditions prevailing the Government floated a 2½ per cent loan repayable in 1363-73 F., which proved very popular with the investing pubuic. A system of Treasury Bills has also been put into effect by Government for raising short-term loans.

The Bank has taken over all the ordinary banking business of the Government and the management of the Public Accounts Department, Currency Department and the Public Debt as from 7th Khurdad 1353 F.

A Branch of the Bank was opened at Warangal during the year. In the course of Azur and Dai 1354 F., it is proposed to open further Branches at Latur, Raichur, Jalna, Nizamabad and Gulbarga. It is intended also to open at more centres in the course of the current Fasli year and thereafter to expand gradually by means of further offices or sub-offices wherever good business is offering.

On the 6th Bahman 1353 F, Mr. N. S. Chenoy was elected a Director under Regulation 35 (2) of the Act to fill the vacancy on the Board caused by the resignation of Raja Pannalal Pitti.

On the expiry of their terms of office Nawab Salar Jung Bahadur and Mir Laik Ali, Esquire, were re-elected by the Board to be Directors of the Bank and Nawab Salar Jung Bahadur was thereafter re-elected Vice-President, under Regulation 38 (5).

Nawab Sir Akeel Jung Bahadur and Nawab Liakat Jung Bahadur, two of the Government Directors, relinquished their memberships of the Board in favour of Nawab Zain Yar Jung Bahadur, the new Hon'ble Member, Commerce and Industries Department, H.E.H. the Nizam's Executive Council, and Nawab Mir Nawaz Jung Bahadur, the new Secretary to Government, Finance Department.

The net profit for the year ended 30th Aban 1353 F., amounts to Rs. 2,83,664-6-1 which, with Rs. 8,546-13-6 brought forward from the year ended 30th Aban 1352 F., makes a total of Rs. 2,92,211-3-7. This sum the Directors of the Bank have decided to disburse as shown in the statement of Profit and Loss Account.

The Balance Sheet of the Bank as on 30th Aban 1353 F., and the Report of the Auditors (Messrs. S. B. Billimoria & Co.) are annexed together with a statement of the Profit & Loss Account for the year ended 30th Aban 1353 F. The Assets and Liabilities of the Currency Department as on 30th Aban 1353 F., were also duly audited; a monthly statement of these is prepared in the form required under the Hyderabad Paper Currency Act and sent to Government for publication in the *Jarida.*

LIABILITIES	O.S.			O.S		
	Rs.	A	P	Rs	A.	P.
Capital— Authorised : 1,50,000 shares of Rs. 100 each	1,50,00,000	0	0			
Issued and Subscribed : 75,000 shares of Rs. 100 each fully paid up				75,00,000	0	0
Reserve Fund				1,00,000	0	0
Fixed Deposits, Savings Bank, Current and other Accounts inclusive of Government Accounts				5,65,55,534	7	2
Loans against Securities *per contra* ..				..		
Acceptances for Constituents				..		
Profit and Loss Account				2,92,211	3	7
Dividends (Unclaimed)				2,845	8	0
Contingent Liabilities				..		

as at 30th Aban 1353 *F.*

ASSETS	O.S.	O.S.
	Rs. A. P.	Rs. A. P.
Investments (of which Securities are valued in accordance with Bye-law 22 of the Bye-laws of the Bank)—		
Government Securities and Deposits with H.E.H. the Nizam's Government and Banks	1,91,23,400 0 0	
Other Trustee Securities	..	
Immovable Properties at or below cost ..	..	
		1,91,23,400 0 0
Advances—		
Loans	7,93,680 8 11	
Cash Credit and Overdrafts	56,91,578 6 3	
Bills Discounted and Purchased ..	16,04,568 9 10	
		80,89,827 9 0
Particulars of Advances—		
(1) Debts considered good in respect of which the Bank is fully secured . [This amount includes debts (fully secured) due by Directors and employees, or by them jointly with others and by firms in which a Director is a partner, aggregating Rs. 1,99,410–10–7 including Rs. Nil advanced to Directors since 30th Aban 1352 F., and recoverable.]	55,25 748 8 11	
(2) Debts considered good for which the Bank holds:		
(*a*) Joint and several Pro-notes including Bills Discounted and Purchased (Authorised under Schedule II, Part B) .	24,24,170 1 3	
(*b*) No security other than the Debtor's personal security .. [This amount includes debts due by Directors and Employees or by them jointly with others and by firms in which a Director is a partner aggregating Rs. 3,054–13–0 including Rs. Nil advanced to Directors since 30th Aban 1352 F., and recoverable.]	1,39,908 14 10	
	80,89,827 9 0	
Liability of Constituents for Acceptances *per contra*	..	
Dead Stock—		
Premises, Furniture, Fittings, etc.:		
Total cost up to the 30th Aban 1352 F.	1,81,459 11 8	
Additions since 30th Aban 1352 F. ..	59,780 15 11	
	2,41,240 11 7	
Less Sales since 30th Aban 1352 F. ..	..	
Total Depreciation written off up to the 30th Aban 1353 F	38,531 15 0	
		2,02,708 12 7
Sundries (Stationery, Stamps, etc.) ..		46,587 13 0
Adjusting Account of Interest, Commission, etc.		50,903 9 11
Bullion		..
Cash—		
In hand	2,05,33,450 5 9	
Balance with other Banks	1,64,03,713 0 6	
		3,69,37,163 6 3
TOTAL ..		6,44,50,591 2 9

Profit and Loss Account for the year ended 30th Aban 1353 F.

	Rs. A. P.	Rs. A. P.
Income		
Amount brought forward	8,546 13 6	
By Gross Profit for the year	6,36,832 11 4	
		6,45,379 8 10
Expenditure		
To Establishment	2,88,032 7 5	
To Directors' Fees	2,925 0 0	
To Auditors' Fees	1,166 10 8	
To Rent, Taxes, Insurance, Lighting, etc. ..	14,094 15 6	
To Depreciation on Bank Property	16,273 5 10	
To Repairs to Bank Property	549 4 6	
To Law Charges	3,600 0 0	
To Postages, Telegrams and Stationery	12,792 6 9	
To Miscellaneous Expenses	13,734 2 7	
		3,53,168 5 3
Total net available balance ..		2,92,211 3 7
Allocation (Previous Year)		
Amount set aside for payment of a Dividend at 3 per cent. per annum	2,25,000 0 0	
Amount transferred to Reserve Fund	1,00,000 0 0	
Written off Deferred Revenue Expenditure ..	38,898 8 0	
Bonus to staff	15,500 0 0	
Balance carried forward	8,546 13 6	
	3,87,945 5 6	
Allocation (Current Year)		
Amount set aside for payment of a Dividend at 3 per cent. per annum	2,25,000 0 0	
Amount transferred to Reserve Fund	40,000 0 0	
Bonus to staff	18,000 0 0	
Balance carried forward	9,211 3 7	
		2,92.211 3 7

TABLE II (*a*)

Average Quantity and Value of Imports and Exports of Gold Coin and Bullion for Each Quinquennium from 1900-01 to 1924-25 and for each of the Financial Years from 1925-26

	IMPORTS					
	Bullion		Sovereigns and other British gold coin		Total	
	Quantity in ounces	Value in rupees	Quantity in ounces	Value in rupees	Quantity in ounces	Value in rupees
Average for 1900-01 to 1904-05	*	5,72,18,318	*	9,34,97,221	2,496,571	15,07,15,539
Average for 1905-06 to 1909-10	*	9,65,96,452	*	7,83,64,043	2,845,107	17,49,60,495
Average for 1910-11 to 1914-15	2,115,569	13,49,74,877	2,786,453	16,42,39,395	4,902,022	29,92,14,272
Average for 1915-16 to 1919-20	2,423,885	14,94,65,235	796,983	4,70,19,473	3,220,868	19,64,84,708
Average for 1920-21 to 1924-25	4,344,849	28,54,42,004	1,183,850	7,90,80,246	5,528,699	36,45,22,250
1925-26	4,447,036	25,26,78,970	1,754,479	9,96,20,393	6,201,515	35,22,99,363
1926-27	2,420,259	13,86,46,145	982,747	5,63,65,857	3,403,006	19,50,12,002
1927-28	2,001,041	11,42,46,018	1,186,985	6,70,98,044	3,188,026	18,13,44,062
1928-29	2,070,197	11,81,68,903	1,718.388	9,40,20,789	3,788,585	21,21,89,692
1929-30	1,194,246	6,83,46,025	1,331,001	7,39,65,452	2,525,247	14,23,11,477
1930-31	1,099,230	6,31,40,997	1,230,396	6,93,11,456	2,329,626	13,24,52,453
1931-32	235,609	1,53,60,459	214,441	1,26,34,905	450,050	2,79,95,364
1932-33	119,742	91,13,200	52,670	40,68,191	172,412	1,31,81,391
1933-34	105,507	85,60.464	29,394	24.33,821	134,901	1,09,94t285
1934-35	62,015	55,38,348	17,977	16,54,753	79,992	71,93.101
1935-36	56,200	50,72,099	47,261	44,23,311	103,461	94,95,410
1936-37	61,086	57,09,880	111,695	1,03,78,239	172,781	1,60.88,119
1937-38	39,967	34,61,069	131,699	1,22,23,092	171,666	1,56,84,161
1938-39	43,696	39,60,395	34,402	33,03,033	78,098	72,63.428
1939-40	26,090	27,11,251	44,833	45,12,948	70,923	72,24,199
1940-41	*	*	*	*	*	*
1941-42	*	*	*	*	*	*
Total for 31 years from 1900-01 to 1930-31	*	4,37,37,11,488	*	2,77,13,83,881	116,402,337	7,14,50,95,369
Total for 9 years from 1931-32 to 1939-40	749,912	5,94,87,165	684,372	5,56,32,293	1,434,284	11,51,19,458

* Figures not available.

TABLE II (a)—*Contd.*

	Exports							
	Bullion		Sovereigns and other British gold coin		Total		Net Imports (+) or Exports (−)	
	Quantity in ounces	Value in rupees	Quantity in ounces	Value in rupees	Quantity in ounces	Value in rupees	Quantity in ounces	Value in rupees
Average for 1900–01 to 1904–05	*	4,85,71,823	*	3,97,99,942	1,520,365	8,83,71,765	+ 976,206	+ 6,23,43,774
Average for 1905–06 to 1909–10	*	3,34,76,990	*	2,40,30,440	1,000,328	5,75,07,430	+ 1,844,779	+ 11,74,53,065
Average for 1910–11 to 1914–15	535,654	3,07,89,183	254,980	1,50,03,372	790,634	4,57,92,555	+ 4,111,388	+ 24,34,21,717
Average for 1915–16 to 1919–20	851,352	4,91,96,822	236,247	1,31,45,685	1,075,034	6,23,41,932	+ 2,145 834	+ 13,41,42,776
Average for 1920–21 to 1924–25	907,000	6,99,52,231	101,892	74,74,737	1,008,892	7,74,26,968	+ 4,519,807	+ 28,70,95,282
1925–26	41,037	23,26,183	24,897	14,27,381	65,934	37,53,564	+ 6,135,581	+ 34,85,45,799
1926–27	8,567	4,91,792	8,910	5,14,762	17,477	10,06,554	+ 3,385,529	+ 19,40,05,448
1927–28	2,052	98,300	4,215	2,45,739	6,267	3,44,039	+ 3,181,759	+ 18,10,00,023
1928–29	1,577	1,05,457	1,567	97,257	3,144	2,02,714	+ 3,785,441	+ 21,19,86,978
1929–30	1,083	65,559	602	37,522	1,685	1,03,081	+ 2,523,562	+ 14,22,08,396
1930–31	86,884	49,29,307	89	5,031	86,973	49,34,338	+ 2,242,653	+ 12,75,18,115
1931–32	7,758,315	58,43,62,379	321,112	2,33,60,827	8,079,427	60,77,23,206	− 7,629,377	− 57,97.27,842
1932–33	8,102,406	63,46,29,676	423,835	3,37,79,671	8,526,241	66,84,09,347	− 8,353,829	− 65,52,27,956
1933–34	6,645,012	56,59,86,325	185,187	1,55,43,921	6,830,199	58,15,30,246	− 6,695,298	− 57,05,35,961
1934–35	5,723,675	52,76,09,980	51,137	49,57,728	5,774,812	53,25,67,708	− 5,694,820	− 52,53,74,607
1935–36	4,072,548	37,83,21,643	50,175	47,33,722	4,122,723	38,30,55,365	− 4,019,262	− 37,35,59,955
1936–37	3,183,450	29,45,14,987	367	34,261	3,183,817	29,45,49,248	− 3,011,036	− 27,84,61,129
1937–38	1,841,172	17,00,08,595	97,311	89,93,695	1,938,483	17,90,02,290	− 1,766,817	− 16,33,18,129
1938–39	589,995	5,72,59,150	845,330	8,07,06,346	1,435,325	13,79,65,496	− 2,387,647†	− 23,26,02,068†
1939–40	3,426,914	37,17,43,852	10,405	11,02,393	3,437,319	37,28,46,245	− 4,155,343‡	− 44,64,30,422‡
1940–41	*	*	*	*	*	*	*	*
1941–42	*	*	*	*	*	*	*	*
Total for 31 years from 1900–01 to 1930–31	*	1,16,79,48,968	*	49,95,98,572	27,157,745	1,66,75,47,540	+89,244,592	+5,47,75,47,829
Total for 9 years from 1931–32 to 1939–40	41,343,487	3,58,44,36,587	1,984,859	17,32,12,564	43,328.346	3,75,76,49,151	−43,713,429§	−3,82,52,38,069§

* Figures not available.
† Including 1,030,420 ounces of gold valued at Rs. 10,19 lakhs earmarked on account of purchasers abroad.
‡ Including 788,947 ounces of gold valued at Rs. 8,08,08,376 earmarked on account of purchasers abroad.
§ Including 1,819,367 ounces of gold valued at Rs. 18,27,08,376 earmarked on account of purchasers abroad.

TABLE II (*b*)

Dividends per Share in Gold Companies

Years ending December 31	Dec. 1940	June 1941	Dec. 1941	June 1942
Rand Mines—Central Mining—				
Rand Mines (5/–)	4/–	4/–	4/–	4/–
City Deep (£1)	2/6	2/6	2/6	2/6
Consolidated Main Reef (£1)*	3/–	2/6	2/6	2/6
Crown Mines (10/–)	9/–	8/–	7/6	7/–
Durban Deep (10/–)	1/9	1/9	1/9	1/9
E. Rand Prop. (10/–)	1/9	1/9	1/9	1/9
Geldenhuis Deep (17/6)	2/–	2/–	2/–	1/6
Modder B Gold (5/–)	1/3	1/3	1/3	1/–
Modder East (£1)*	4/–	3/6	3/6	3/6
New Modder Gold (10/–)*	2/–	1/6	1/3	1/3
Nourse (£1)*	2/3	2/3	2/3	2/3
Rose Deep (£1)	2/–	2/–	2/–	2/–
Union Corporation—				
East Geduld (£1)	7/–	6/3	6/2	5/6
Geduld Prop. Mines (£1)	7/6	6/9	6/9	6/3
Grootvlei Prop. Mines (£1)	2/3	2/–	2/–	2/3
Marievale (10/–)	–/3	–/6	–/6	–/6
Van Dyk Consd. (10/–)	–/10½	–/10½	–/10½	–/7½
Consolidated Gold Fields Group—				
Rietfontein Cons. (5/–)	–/10½	–/9	–/9	–/6
Robinson Deep "B" (7/6)	2/3	1/10½	1/10½	1/6
Simmer & Jack (2/6)	–/7½	–/6	–/5	Nil
Sub Nigel (10/–)*	7/–	6/3	6/3	5/3
Venterspost (10/–)*	–/7½	–/9	–/9	–/7½
Vogelstruisbult (10/–)	–/10½	–/10½	–/10½	–/9
Luipaards Vlei (2/–)*	–/6	–/5	–/5	–/4
Anglo-American—				
Brakpan (5/–)	1/6	1/3	1/3	–/10½
Daggafontein (5/–)	1/6	1/4½	1/6	1/3
E. Daggafontein (10/–)	1/6	1/3	1/3	1/3
New Era Consol (5/–)	–/4½	–/4½	–/4½	–/4½
S. African Land (3/6)	3/6	3/3	3/6	3/–
Springs (5/–)	1/3	1/–	1/–	–/9
West Springs (£1)	1/4½	1/–	1/–	–/9
Western Reefs (5/–)	..	..	–/3	–/9
"Johnnies" Group—				
East Champ (2/6)	1/–	–/10½	–/10½	–/9¾
Govt. G.M. Areas (5/–)	1/10½	1/9	1/9	1/7½
Langlaagte Estates (£1)	–/6	–/6	–/6	–/4½
New State Areas (£1)	2/9	2/4½	2/4½	2/–
Randfontein Est. G.M. (£1)	2/3	2/3	2/3	1/10½
Van Rye Deep (£1)	1/6	1/4½	1/–	–/6
Witwatersrand G.M. (£1)	3/–	2/4½	2/4½	1/9

* Financial year ends June 30.

The recent strength of Bombay silver and the recent sharp increase in Bombay demand for gold presumably reflects jitters about this Japanese move. Such ultra-speculative reactions are traditional in Bombay, but generally prove very temporary.

The *Financial Times* writes yesterday's gold sales in Bombay exceeded 1,400 thousand sterling, the biggest for more than a month. As the Indian Finance Member explained in his budget speech, these gold sales afford the age-long alternative to those who do not desire to invest in Government Securities despite the latter's advantages over investment in gold. The gold is provided by the British and United States Governments towards their war expenditure in India and it is generally believed that the British share comes from South Africa. The Finance Member foreshadowed that the Indian Reserve Bank's sterling holdings by the end of this month will be about 950 crores of rupees or almost 720 million sterling, thus before the end of the war, Britain's obligations to India may be around 1,000 million sterling. Moreover, the Government of India has redeemed more than 350 million of their sterling debt.

The Nundydroog's announcement of a higher dividend yesterday complete the excellent 1943 story of the famous quartet of Indian gold mines which for over sixty years have been managed by Messrs. John Taylor and Sons. On 1943 dividends which all exceed those of 1942, yields at present are Champion Reef 10.1, Mysore 8.1, Nundydroog 7 8, Ooregaum (ordinary) 5.7, and Ooregaum (preferred) 9.2 per cents. Moreover, dominion relief adds about 40 per cent. to these yields. The mines are allowed to sell their output on the Bombay Bullion Market, where last year, the price touched above 19 sterling an ounce against the official London quotation of 168 shillings, but lately, official selling has restrained the Bombay price to slightly above 14 sterling. Moreover, the Mysore Government duty takes the bulk of the premium. Champion Reef has relatively the biggest developed ore reserves, but Nundydroog is expected to have the longest remaining life. Even the Tea Share Market has been unperturbed by the recent Japanese infiltration to India, although the North India tea estates are relatively near the area concerned, whereas gold mines in the extreme South India are almost maximumly remote from the Japanese area.

TABLE III

The Bank Rate

Year	Imperial Bank of India: Half-year ending 30th June	Imperial Bank of India: Half-year ending 31st December	Imperial Bank of India: Annual Average	Federal Reserve Bank of New York Annual Average	Bank of England Annual Average
1922	7·13	4·51	5·81	..	3·70
1923	7·42	4·50	5·98	..	3·49
1924	8·05	5·32	6·68	3·63	4·00
1925	6·58	4·70	5·64	3·42	4·57
1926	5·65	4·70	5·17	3·84	5·00
1927	6·51	4·96	5·73	3·79	4·65
1928	6·94	5·46	6·20	4·50	4·50
1929	6·88	5·79	6·33	5·16	5·50
1930	6·51	5·28	5·89	3·04	3·42
1931	6·74	7·35	7·04	2·12	3·93
1932	6·02	4·03	5·03	2·81	3·01
1933	3·63	3·50	3·56	2·56	2·00
1934	3·50	3·50	3·50	1·54	2·00
	Reserve Bank of India				
1935	3·50	3·41	3·46	1·50	2·00
1936	3·00	3·00	3·00	1·50	2·00
1937	3·00	3·00	3·00	1·33	2·00
1938	3·00	3·00	3·00	1·00	2·00
1939	3·00	3·00	3·00	1·00	2·27
1940	3·00	3·00	3·00	1·00	2·00
1941	3·00	3·00	3·00	1·00	2·00
1942	3·00	3·00	3·00	1·00*	2·00
1943	3·00	3·00	3·00	1·00*	2·00

* Since 30th October 1942, 0·50 for advances secured by Government obligations maturing or callable in one year or less.

UNITED STATES MONEY RATES

More complete information on the early November changes in Federal Reserve Bank discount rates has now reached this country and calls for a slight amendment of the commentary on these changes which appeared in *The Economist* of November 7th. The new ½ per cent. rate in New York apparently applies to advances to banks secured by Government obligations maturing or callable in one year or less. This evidently introduces a new type of official accommodation provided by the Federal Reserve Banks. Until then, the operations with member banks, other than those conducted in the open market, were of four kinds: discounts of eligible paper; advances secured by eligible paper advances secured by direct Government obligations having not more than 90 days to run; and other secured advances (the maturities not exceeding four months). To this must now be added advances on Government obligations having not more than one year to run. The bank rate proper is generally held to be that obtaining for the discount of

eligible paper and advances secured by such paper, having not more than 90 days to run. This rate remains at 1 per cent. in New York. The reduction in the rate of advances secured by Direct Government obligations is, of course, an indication of the increasing extent to which member banks have been entering the market for short-term Government paper and of the narrowing of the margin of member banks' excess reserves. Reserve balances have, in recent months, been strengthened by substantial open market purchases of securities by the Federal Reserve Banks and by some alleviation of reserve requirements in the New York and Chicago districts, where the decline in reserves had been concentrated.

New York Bank Rate Halved

Recently, the New York Federal Reserve Bank reduced its rate for member bank advances, secured by direct obligations of the U.S. Government and having not more than ninety days to run, from 1 to ½ per cent. The move had been anticipated by three of the other Reserve Banks, and within a matter of a few weeks the lower rate for advances is expected to apply to each of the twelve reserve districts. It should be noted that the reduction does not apply to the Reserve Banks' rate for the discount of eligible paper or for advances secured on such paper. It has been customary in the past for the two rates to move together, but there have been ample precedents for their dissociation. The move by the Federal Reserve Banks should not be regarded as the beginning of a drive towards still cheaper money. Rather is it a defensive move against the rising trend of open market rates for Government bonds and an inducement to the commercial banks to absorb the larger quantities of Government paper which are now being taken up by the open market. The October financing involved the placing of about $4,000 millions of Government paper, and a substantial proportion of this total was placed with the banks—not without some element of coaxing. The recent reluctance of the banks to take up the additional Government issues to the required amount was not altogether surprising. They had seen the rate on three months' U.S. Government bills rise from an average of 0.014 per cent. for 1940 to 0.103 per cent. for 1941 and to 0.369 per cent. in recent weeks. Moreover, their margin of excess reserves has been narrowing. From the "high" of about $6,500 millions reached towards the end of 1940, these excess reserves had fallen to $2,160 millions on October 29th last.

The influences leading to this reduction in excess reserve balances are the continued increase in the circulation over a period when gold has ceased to arrive into the country in appreciable volume, the rise in member bank deposits accompanying the huge expansion in the money income of the country and the increase in reserve requirements decreed a year ago. Member bank reserve requirements are now exactly double the basic requirements, and in the possibility of their reduction there lies tremendous scope for alleviation of the credit situation. By restoring the reserve requirements to the basic figures some $6,000 millions would immediately be transferred from reserve balances to excess reserves. Utilisation of this power would not, however, have brought immediate reassurance to member banks pressed to take additional Government paper. A more direct method had to be chosen, namely, the halving of the rate on advances secured by short-term Government securities. The move in New York which,

money market, has been entirely ignored here. It has not even revived the hardy annual speculations about the possibility of restoring the short money rate to ½ per cent. and thus making it possible to issue Treasury bills appreciably under 1 per cent. again.

U.S. Discount Rates

All Federal Reserve Banks have come into line in reducing from 1 to ½ per cent. the rate on member bank advances secured by direct obligations of the U.S. Government having a year or less to run. The rate for advances secured by Government paper having more than a year to run remains at 1 per cent. The rate for other secured advances to member banks, granted under Section 10 (*b*) of the Federal Reserve Act, has come down from 2 to 1½ per cent. in the New York district and that for advances under Section 13, to individuals, partnerships or corporations, other than banks, from 3½ to 2½ per cent. The imperfect appreciation of these changes, which has persisted in this country ever since they were made two months ago, is largely due to the manner in which the relevant information is presented in the official Federal Reserve Bulletin. In the tabulation of official discount rates the charges on advances secured by Government paper appear under the following heading: "Advances secured by the direct obligation of the U S. (maturities not exceeding 90 days)." This 90-day limitation of the maturities does not apply—as would seem indicated by the context—to the obligations of the U.S. securing the advance, but to the currency of the advance itself. Official U.S. banking statistics are, in so many respects, an example to all the world that such a method of presentation is particularly misleading to the outside observer.

Table IV

Indian Money Rates per cent., 1941-42

1st of		Bank Rate*	Imperial Bank of India Hundi Rate†	Call Money Rate		Bazar Bill Rate‡		Average Monthly Treasury Bill Rate	Deposit Rates§		
				Calcutta	Bombay	Calcutta (Range)	Bombay		3 Months	6 Months	12 Months
April	1941	3	3	½	½	6—7	6	0 12 11	1	1¼	1¾
May	,,	3	3	½	¼	6—7	6	0 12 7	1	1¼	1¾
June	,,	3	3	½	¼	6—7	6	0 13 1	1	1¼	1¾
July	,,	3	3	½	¼	6—7	5⅝	0 13 7	¾	1¼	1¾
August	,,	3	3	½	¼	6—7	4½	0 8 5	¾	1	1¾
September	,,	3	3	½	¼	6—7	4½	0 8 10	¾	1	1¾
October	,,	3	3	½	¼	6—7	4½	0 10 3	¾	1 to 1¼	1¾
November	,,	3	3	½	¼	6—7	5¼	0 12 1	¾	1 to 1¼	1¾
December	,,	3	3	½	¼	6—7	5¼	0 15 1	¾	1 to 1¼	1¾
January	1942	3	3	½	½	6—7	6¾	0 15 6	1¼	1¼ to 1½	1½ to 2
February	,,	3	3	½	¼	6—7	6¾	0 15 9	1 to 1¼	1½ to 1¾	1¾
March	,,	3	3	½	¼	6—7	6¾	1 2 0	1 to 1¼	1½ to 1¾	1¾ to 2

* The standard rate at which the Reserve Bank of India is prepared to buy or rediscount bills of exchange or other commercial paper eligible for purchase under the Reserve Bank Act.

† The rate at which the Imperial Bank discounts first class three months' commercial bills.

‡ Rates at which the bills of small traders are reported to have been discounted by shroffs. These are unofficial quotations.

TABLE V

The Reserve Bank of India—Issue Department

Average of Friday Figures	Notes held in Banking Department	Notes in Circulation	Total	Gold Coin and Bullion	Sterling Securities	Rupee Coin*	Rupee Securities	Percentage of Gold and Sterling Securities to Total Notes issued
1939–40	18,89 (8)	208,86 (11,07)	227,75 (11,15)	44,42	78,32	67,59	37,42	53·89
1940–41	17,15 (20)	241,62 (13,42)	258,77 (13,62)	44,42	129,97	35,81	48,57	67·39
1941–42	12,17 (23)	308,46 (20,25)	320,63 (20,48)	44,42	165,44	35,21	75,56	65·45
1941–42								
April	11,65 (21)	267,08 (17.80)	278,73 (18,01)	44,42	108,03	35,44	90,84	54·70
May	11,50 (29)	272,89 (17,96)	284,39 (18,25)	44,42	112,80	35,85	91,32	55·28
June	12,83 (28)	277,70 (18,10)	290,53 (18.38)	44,42	118,80	36,00	91,31	56·18
July	15,85 (27)	275,69 (18,76)	291,54 (19.03)	44,42	120,94	37,01	89,17	56·72
August	15,62 (29)	276,77 (18,89)	292,39 (19.18)	44,42	131,62	37,86	78,49	60·21
September	11,30 (24)	284,29 (18,62)	295,59 (18.86)	44,42	135,37	38,80	77,00	60·82
October	12,61 (23)	292,90 (19,21)	305,51 (19,44)	44,42	150,85	38,56	71,68	63·92
November	11,06 (23)	303,72 (19,72)	314,78 (19,95)	44,42	175,40	37,48	57,48	69·83

December	10,31 (25)	325,13 (20,91)	335,44 (21.16)	44,42	213,12	35,15	42,75	76·78
January	11,39 (24)	350,46 (22,07)	361,85 (22,31)	44,42	243,62	32,31	41,50	79·60
February	10,42 (13)	372,95 (23,99)	383,37 (24,12)	44,42	267,37	30,08	41,50	81·33
March	11,50 (5)	401,98 (27,01)	413,48 (27,06)	44,42	207,35	27,95	133,76	60·89
1942–43								
April	11,84 (3)	430,14 (28,54)	441,98 (28,57)	44,42	235,10	29,47	132,99	63·24
May	12,11 (2)	455,09 (30,24)	467,20 (30,26)	44,42	250,85	28,14	143,79	63·20
June	11,90	439,17	451,07	44,42	258,10	26,27	122,28	67·07
July	12,81	449,53	462,34	44,42	270,84	28,77	118,31	68·19
August	12,25	467,91	480,16	44,42	304,29	29,07	102,38	72·62
September	11,37	488,06	499,43	44,42	325,29	27,29	102,43	74·03
October	10,58	508,77	519,35	44,42	318,83	23,71	132,39	69·94
November	10,73	535,26	545,99	44,42	351,83	17,35	132,39	72·57
December	12,47	560,57	573,04	44,42	388,33	14,16	126,13	75·52
January	12,73	587,60	600,33	44,42	364,23	13,72	177,96	68·07
February	11,56	609,50	621,06	44,42	378,03	13,94	184,67	68·02
30th June, 1943	13,68	732,48	746,16	44,41	567,79	15,55	118,41	82·047
31st December, 1943	9,60	840,80	850,40	44,41	734,84	12,82	58,33	91·634

Note.—Burma figures shown in brackets below totals Figures for India only from June 1942.
* Including Government of India one-rupee notes from July 1940

(In lakhs of rupees)

Deposits				Other Liabilities	Notes and Coin	Balances held Abroad	Loans and Advances to Government	Other Loans and Advances	Bills purchased and discounted	Investments	Other Assets
Government	Banks	Other	Total								
13,75	17,87	1,06	32,68	1,52	18,99	12,19	1,07	11	2,87	7,24	1,73
17,50	36,83	1,93	56,26	2,56	17,28	39,47	2,07	7	1,00	7,75	1,18
17,51	37,75	3,87	59,13	4,41	12,31	45,94	4,22	4	27	8,97	1,79
15,56	27,28	6,19	49,03	4,77	11,75	30,63	11,32	6	96	7,71	1,37
13,62	27,47	5,45	46,54	4,96	11,61	33,83	6,38	1	39	7,75	1,53
11,96	29,12	3,09	44,17	5,79	12,94	36,92	55	..	..	8,10	1,45
22,37	30,47	2,87	55,71	4,00	15,97	43,89	1,09	..	30	7,32	1,14
18,36	37,35	3,88	59,59	1,35	15,74	44,98	1,08	..	47	7,62	1,05
14,88	47,09	3,58	65,55	1,66	11,43	53,38	1,98	..	42	8,93	1,07
23,03	48,29	4,33	75,65	2,15	12,76	64,90	10	..	27	8,63	1,14
17,05	47,42	4,58	69,05	2,36	11,19	60,59	16	..	10	8,15	1,22
20,39	37,61	4,17	62,17	4,30	10,47	55,58	7	15	5	8,51	1,614
19,60	36,97	3,01	59,58	5,30	11,56	47,48	2,27	15	..	11,52	1,90
13,36	41,70	2,63	57,69	7,69	10,55	38,01	11,92	4	8	11,68	3,10
19,98	42,16	2,65	64,79	8,53	11,69	41,07	13,74	2	23	11,69	4,88
14,91	42,03	1,80	58,74	10,03	11,94	46,36	5,09	6	1,20	8,44	5,68
16,85	51,26	1,95	70,06	8,98	12,21	57,61	3,43	11	52	8,32	6,84
12,35	60,38	2,07	74,80	9,55	12,01	62,66	3,86	..	13	8,57	7,12
22,47	64,55	2,05	89,07	6,62	12,95	81,81	63	..	6	8,23	2,01
13,39	67,06	2,53	82,98	6,07	12,39	76,95	88	..	18	6,59	2,06
17,47	65,15	5,00	87,62	6,46	11,50	82,16	1,52	..	29	6,59	2,02
20,21	67,17	3,51	90,89	6,65	10,70	87,57	39	..	26	6,60	2,02
19,38	64,57	4,20	88,15	7,37	10,86	85,22	25	..	58	6,61	2,00
24,38	53,49	4,60	82,50	7,22	12,59	76,83	67	8	1,00	6,30	2,25
22,69	50,19	4,43	77,31	7,64	12,87	70,45	80	1	1,87	6,37	2,58
37,82	49,20	3,58	90,60	8,85	11,69	86,75	13	10	1,59	6,58	2,61
19,03	58,24	3,05	80,32	8,79	13,84	75.88	..	22	51	7,38	1,28
24,28	90,17	7,17	121,62	10,19	9,79	120,60	26	19	3	7,69	3,25

RESERVE BANK
(In 000's of Rupees)

	Feb 23, 1945	Week ended Feb. 16, 1945	Feb. 25, 1944
Issue Department			
Liabilities :—			
Notes held in Banking Department	7,70,93	8,76,72	12,54,13
Notes in circulation	1059,34,16	1058,44,82	867,49,69
Total Notes issued ..	1067,05,09	1067,21,54	880,03,82
Assets :—			
A. Gold Coin and Bullion :			
(*a*) In India	44,41,43	44,41,43	44,41,43
(*b*) Outside India ..	..	..	.
Sterling Securities	954,32,89	954,32 89	763,83,96
Total of A	998,74,32	998,74,32	808,25,39
B. Rupee Coin .. .	10,46,76	10,63,25	13,45,70
Rupee Securities	57,84,01	57,83,97	58,32,73
Internal Bills of Exchange and other Commercial Paper	..	..	.
Total ..	1067,05,09	1067,21,54	880,03,82
Banking Department			
Liabilities :—			
Capital paid-up	5,00,00	5,00,00	5,00,00
Reserve Fund	5,00,00	5,00,00	5,00,00
Deposits—			
(*a*) Government—			
(1) Central Government of India	259,69,72	258,65,99	56,46,67
(2) Government of Burma	87,72	87,93	32,30
(3) Other Government Accounts	22,44,33	18,06,01	13,89,36
(*b*) Banks	75,28,45	76,32,04	58,10,06
(*c*) Others	21,58,24	21,68,66	9,34,68
Bills Payable	5,53,64	5,80,35	4,01,13
Other Liabilities	12,63,95	12,68,37	10,57,35
Total .	408,06,05	404,09,35	162,71,55
Assets :—			
Notes	7,70,93	8,67,72	12,54,13
Rupee Coin	25,72	22,39	28,30
Subsidiary Coin	1,86	1,80	1,46
Bills Discounted—			
(*a*) Internal .. .	..	..	..
(*b*) External	..	..	..
(*c*) Government of India Treasury Bills .. .	4,67,17	5,42,11	2,99,50
Balances held abroad	368,95,78	363,49,66	134,77,59
Loans and Advances to Government	..	5,00	30,00
Other Loans and Advances ..	..	2,00	..
Investments	22,09,80	21,88,23	8,50,16
Other Assets	4,34,79	4,30,44	3,30,41
Total ..	408,06,05	404,09,35	162,71,55

Situation prior to the Constitution of the Reserve Bank of India.—The returns of the Paper Currency Reserve (Treasury) and those of the Gold Standard Reserve (Government of India) have been combined in the foregoing table. *Gold*: Valued at the rate of $13^1/_3$ rupees = £1, fixed on April 1st, 1927. In March 1935, 415 million rupees were held by the Paper Currency Reserve and 29 millions by the Gold Standard Reserve. *Silver*: Coin held by the Paper Currency Reserve. *Notes in circulation*: The notes issued by the Government of India, and since April 1935 by the Central Bank, represent only a part of the currency in circulation, which to a large extent consists of coin, the exact amount being unknown.

Indigenous Bankers.—In December 1937, the Reserve Bank reported on the question of the proposed extension to the indigenous bankers of the provisions relating to scheduled banks. The indigenous bankers, having replied that it would not suit them to submit to the conditions which the Reserve Bank considers necessary, the Bank informed the Government that it "could not recommend any immediate legislation to amend the Reserve Bank Act in regard to the extension of its provisions relating to scheduled banks to the private bankers". The Bank is, therefore, directing its efforts to developing open-market operations in trade bills, "as this would give first-class indigenous bankers closer relationship with us without the necessity of making any radical changes in their present business methods" (*Annual Report of the Reserve Bank of India*, 1938). At the Bank's request, the Government consented to reduce the stamp duty on inland bills to a uniform level of two annas per thousand rupees.

Agricultural Credit.—In its statutory report submitted to the Government of India in December 1937, the Reserve Bank indicated the various directions in which improvements might be made to enable the existing credit agencies to be of greater use to the agriculturist, and the manner in which the Reserve Bank could render assistance. The main recommendation was that the co-operative movement should be reconstructed and revitalised.

Establishment of an Industrial Credit Corporation.—The United Provinces Government decided, in March 1938, to establish an Industrial Credit Corporation, with a capital of 1,500,000 rupees, with power to accept long-term deposits, from which to lend money to small industrialists at a rate of interest as low as possible. The Government hopes to assist by paying, *inter alia*, a certain sum of money for fifteen years to supplement the Corporation's profits, with a view to helping it to declare a dividend of 4 per cent., and by making a grant, to be placed in the contingency reserve fund, to cover bad debts.

TABLE VI

Growth of the Imperial Bank of India

(In lakhs of Rupees)

As on		Paid-up Capital	Reserves	Total	Deposits			Cash Balances	Investments (Government and other authorised Securities)	Loans and Advances including Bills discounted and purchased
					Govern-ment (Public)	Private	Total			
31st December 1922	..	5,63	4,33	9,96	14,16	57,00	71,16	15,07	9,79	54,51
,, ,, 1923	..	5,63	4,55	10,18	8,57	74,20	82,77	15,01	12,18	70,71
,, ,, 1924	..	5,63	4,80	10,43	7,50	76,71	84,21	15,60	16,37	61,40
,, ,, 1925	..	5,63	4,92	10,55	5,47	77,83	83,30	17,47	17,01	56,45
,, ,, 1926	..	5,63	5,09	10,72	6,45	73,90	80,35	20,90	19,15	48,02
,, ,, 1927	.	5,63	5,24	10,87	7,20	72,07	79,27	10,89	18,59	61,53
,, ,, 1928	..	5,63	5,39	11,02	7,95	71,30	79,25	10,58	21.76	61,60
,, ,, 1929	..	5,63	5,47	11,10	7,60	71,64	79,24	14,00	33,00	40,59
,, ,, 1930	..	5,62	5,53	11,15	7.37	76,60	83,97	13,04	29,25	49 58
,, ,, 1931	..	5,63	5.14	10,77	8,32	63,86	72,18	11,04	30.27	41,58
,, ,, 1932	..	5,62	5,43	11,05	7,07	68,36	75,43	20,97	32,04	30,60
,, ,, 1933	..	5,63	5,49	11,12	6,44	74,13	80,57	18,60	47,03	22,99
,, ,, 1934	..	5,62	5,66	11,28	6,72	74,28	81,00	18,97	41,56	29,02
,, ,, 1935	..	5,63	5,47†	11.10	*	79,10	79,10	19,59	46,88	21,58
,, ,, 1936	..	5,63	5,50†	11,13	..	78,80	78,80	8,56	52,59	26,76
,, ,, 1937	..	5,63	5,50†	11,13	..	81,08	81,08	13,43	47,62	29,37
,, ,, 1938	..	5,63	5,55†	11,18	..	81,51	81,51	8,99	43,72	38,30
,, ,, 1939	..	5,63	5,60†	11,23	..	87,84	87,84	11,09	38,02	48,28
,, ,, 1940	..	5,63	5,62†	11,25	..	96,03	96,03	24,83	48,57	32,31
,, ,, 1941	..	5.63	5.62†	11,25	..	108,92	108,92	15,27	64,40	38,88
,, ,, 1942	..	5,63	5,75	11,38	..	163,46	163,46	23,00	116,41	33,79
,, ,, 1943	..	5,63	5,85	11,48	..	214,53	214,53	53,36	130,20	40,60

* With the establishment of the Reserve Bank of India, Government deposits were transferred to that Bank as from 1935.
† Excluds balance of profits.

	Week ended		
	Jan. 12, 1945	Jan. 5, 1945	Jan. 14, 1944
Liabilities—			
Subscribed Capital .. .	11,25,00	11,25,00	11,25,00
Capital paid-up	5,62,50	5,62,50	5,62,50
Reserve Fund	5,92,50	5,92,50	5,85,00
Fixed Deposits, Savings Bank, Current and other Accounts ..	228,72,88	233,02,33	213,26,78
Sundries	3,48,32	2,23,31	69.91
Total ..	243,76,20	246,80,64	225,44,19
Assets—			
Government Securities . ..	141,72,74	144,83,45	133,69,60
Other authorised investments .	3,99,38	3,99 38	2,90,85
Loans	15,23,51	14,50,46	15,32,40
Cash Credits	45,15,47	44,60,45	21,05,04
Bills Discounted and Purchased .	4,38,72	4,42,43	4,36,20
Dead Stock	1,66,33	1,66,31	1,69,49
Sundries	1,63,98	1,67,37	1,14,79
Bullion	..	..	..
Balances with other Banks ..	1,45,14	2,71,91	2,67.22
Cash in hand and with the Reserve Bank of India ..	28,50,93	28,38,88	42,58,60
Total ..	243,76,20	246,80,64	225,44,19

TABLE VII

Growth of Indian Joint-Stock Banks (other than Imperial Bank of India)

(In thousands of Rupees)

As on	No of Reporting Banks	Paid-up Capital	Reserves	Total Paid-up Capital and Reserves	Deposits	Cash Balances	Bills Discounted and Loans and Advances	Investments in Government and other Securities
Class 'A' –Banks having a Paid-up Capital and Reserves of Rs 5 lakhs and over								
31st December 1870	2	9,83	1,82	11,65	13,95	5,07	..	..
,, ,, 1880	3	18,00	3,11	21.11	63,37	16,63	..	..
,, ,, 1890	5	33,50	17,59	51,09	2,70,78	55,79	..	..
,, ,, 1900	9	82,12	45,60	1,27,72	8,07,52	1,19,04	..	..
,, ,, 1910	16	2,75,66	1,00,55	3,76,21	25,65,85	2,80,25	..	..
,, ,, 1920	25	8,37,02	2,55,46	10,92,48	71,14,64	16,30,70	..	..
,, ,, 1928	28	6,74,84	4,34,66	11,09,50	62,85,36	8,19,00	..	..
,, ,, 1929	33	7,86,97	3,66,54	11,53,61	62,72,03	9,04,99	..	..
,, ,, 1930	31	7.47,31	4,42,84	11.90,15	63,75,51	7,67,91	..	..
,, ,, 1931	34	7,80,30	4,28,14	12,08,44	62,26,44	7,71,02	..	..
,, ,, 1932	34	7,81,81	4,39,33	12,21,14	72,34,00	9,75,76	.	..
,, ,, 1933	34	7,78,24	4,55,28	12,33,52	71,67,43	10,91,64	..	..
,, ,, 1934	36	7,99,49	4,67,74	12,67,23	76,77,26	11,14,26	..	..
,, ,, 1935	38	8,17,49	5,02,36	13,19,85	84,44,61	19,12,15	42,20,56	..
,, ,, 1936	42	8,48,82	5,46,51	13,95,33	98,14,26	15,28,37	52,08,33	38,12,20
,, ,, 1937	39	7,25,17	5,53,09	12,78,26	100,26,50	16,81,80	65,06,94	37,60,54
,, ,, 1938	43	7,48,91	5,65.51	13,14,42	98,08,27	14,00,29	52,20,96	41,70,80
,, ,, 1939 A_1	39	7,24,59	4,69,04	11,93,63	93,74,42	16,11,89	52,58,34	36,50,53
,, ,, 1939 A_2	12	1,00,99	61,62	1,62,61	6,99,07	60,23	5,28,01	2,44,45
Total 1939	51	8,25,58	5,30,66	13,56,24	100,73,49	16,72,12	57,86,35	38,94,98

TABLE VII—*Contd.*

As on	No. of Reporting Banks	Paid-up Capital	Reserves	Total Paid-up Capital and Reserves	Deposits	Cash Balances	Bills Discounted and Loans and Advances	Investments in Government and other Securities
				Class "A"—Contd.				
31st December 1940 A_1 ..	41	7,77,65	4,89,43	12,67,08	106,10,09	25,02,43	48,94,64	42,44,86
" " 1940 A_2 ..	70	1,31,30	67,24	1,98,54	7,88,37	1,23,76	5,49,24	2,74,97
Total 1940 ..	58	9,08,95	5,56,76	14,65,62	113,98,45	26,26,19	54,43,88	45,19,83
" December 1941 A_1 ..	44	8,40,76	5,19,14	13,59,90	129,04,39	24,20,66	62,76,05	58,51,70
" " 1941 A_2 ..	19	1,72,13	86,97	2,59,10	8,59,69	1,48,61	6,19,41	3,05,20
Total 1941 ..	63	10,12,89	6,06,11	16,19,00	137,64,08	25,69,27	68,95,46	81,56,90
" December 1942 A_1 ..	44	10,68,04	5,57,33	16 25,37	189,33,83	43,76,69	60,67,61	101,76,76
" " 1942 A_2 ..	25	1,92,48	83,71	2,76,19	13,41,05	3.53,07	7,47,13	4,74,28
Total 1942 ..	69	12,60,52	6,41,04	19,01,56	202,74,88	47,29,76	64,14,74	106,51,04
" December 1943 A_1 ..	57	16,56,54	7,10,39	23,66,93	319,65,39	76,56,85	107,32,72	164,25,02
" " 1943 A_2 ..	35	2,10,57	70,20	2,80,77	19,33,63	6,35,92	9,91,57	5,27,99
Total 1943 ..	92	18,67,11	7,80,59	26,47,70	338,99,01	82,92,77	117,24,29	169,53,01
			Class 'B'—Banks having Paid-up Capital and Reserves between Rs. 1 lakh and Rs. 5 lakhs					
31st December 1920 ..	33	61,42	19,95	81,37	2,33,46	41,91	..	..
" " 1928 ..	46	81,19	38,68	1,19,87	3,49,66	52,09	..	..
" " 1929 ..	45	74,94	40,08	1,15,06	3,57,51	44,95	..	..
" " 1930 ..	57	90,57	50,28	1,40,85	4,39,18	52,19	..	.
" " 1931 ..	54	85,70	42,02	1,27,72	3,92,16	47,27	..	..
" " 1932 ..	52	85,38	43,97	1,29,35	3,92,54	67,60	..	..
" " 1933 ..	55	87,52	43,19	1,30,71	4,74,84	81,86	..	..
" " 1934 .	69	94,46	54,37	1,48,83	5,11,12	71,51	..	..

,, ,, 1935 ..	62	86,31	52,43	1,38,74	5,27,67	82,15	4,59,25	..
,, ,, 1936 ..	71	94,06	52,72	1,46,78	5,46,51	99,54	4,74,28	58,08
,, ,, 1937 ..	108	1,44,15	72,55	2,16,70	8,28,89	1,32,78	7,45,82	1,03,39
,, ,, 1938 ..	120	1,62,48	78,70	2,41,18	8,72,42	1,28,90	7,73,61	1,33,53
,, ,, 1939 ..	119	1,57,66	74,81	2,32,47	9,27,26	1.37,39	8,85,26	2,14,10
,, ,, 1940 ..	122	1,67,42	76,44	2,43,86	11,03,96	2,24,47	8,14,05	2,08,31
,, ,, 1941 ..	125	1,83,35	72,85	2,56,20	11,45,17	2,67,19	8,38,23	2,74,57
,, ,, 1942 ..	136	1,99,86	71,49	2,71,35	15,60,22	4,59,31	10,08,51	3.57,69
,, ,, 1943 ..	152	2,44,58	72,02	3,16,60	20,89,77	6,69,01	12,53,28	4,75,55
Class ' C'—Banks having Paid-up Capital and Reserves between Rs. 50,000 and Rs. 1 lakh								
31st December 1939 ..	112	60,96	16,19	77,15	2,98,17	51,98	2,64,74	42,09
,, ,, 1940 ..	121	65,42	18,54	83,96	2,85,82	58,72	2,58,69	43,62
,, ,, 1941 ..	124	70,80	18,89	89,69	3,93,32	97,58	3,08,83	65,04
,, ,, 1942 ..	137	76,88	20,57	97,45	4,94,58	1,55,74	3,39,73	79,64
,, ,, 1943 ..	141	78,04	20.22	98,26	6,25,96	1.97,22	4,11,69	1,05,07
Class ' D'—Banks having Paid-up Capital and Reserves less than Rs. 50,000								
31st December 1939 ..	400	61,52	14,27	75,79	2,63,23	38,03	2,86,06	22,62
,, ,, 1940 ..	332	47,59	12,62	60,21	2,71,90	46,69	2,32,15	24,60
,, ,, 1941 ..	147	21,53	4.62	26,15	83,82	13,19	84,40	6,60
,, ,, 1942 ..	133	18,21	4,29	22,50	74,86	13,20	69,19	6,21

Note 1.—Where figures for 1940 were not available, figures for 1939 have been taken for the purpose of consolidation and are subject to revision.

Note 2.—A_1 = Scheduled Banks; A_2 = Non-Scheduled Banks.

Scheduled Banks
(In 000's Rupees)

	13-4-45	6-4-45	1-9 39
Demand Liabilities— In India	597,90,54	604,22,53	134,36,49
Time Liabilities— In India	223,18,35	221,63,83	102,24,34
Total Cash— In India	29,19,60	28,92,95	6,69,92
Balances with Reserve Bank .	84,66,21	84,53,19	25,17,19
Advance— In India	280,69,89	281,22,36	101,52,16
Bills Discounted— In Iudia	14,75,75	15,17,31	3,57,29

Period	Bombay	Calcutta	Cawnpore	Delhi	Karachi	Lahore	Madras	Rangoon	Total*	Progressive Total
Total 1939–40	878,25	1,149,64	14,29	20,14	37,49	11,07	99,62	97,27	2,307,77	2,307,77
" 1940–41	796,66	1,005,65	18,95	28,26	46,62	15,71	106,69	117,82	2,136,36	2,136,36
" 1941–42	1,046,77	1,230,09	30,33	41,06	58,50	26,61	135,30	131,02	2,699,68	2,699,68
1941–42										
April	78,75	78,19	2,26	2,76	4,30	1,82	9,87	13,70	191,65	191,65
May	87,98	102,47	2,32	3,11	4,73	2,03	12,03	15,99	230,66	422,31
June	75,39	86,81	1,81	2,57	3,71	2,71	9,68	13,60	196,28	618,59
July	75,09	90,27	1,96	2,53	4,66	1,88	10,34	12,37	199,10	817,69
August	94,58	117,81	2,64	3,45	5,29	2,08	12,57	14,79	253,21	1,070,90
September	75,26	109,45	2,20	2,83	4,40	1,87	10,89	10,85	217,75	1,288,65
October	94,84	108.18	2,45	3,55	5,46	2,29	12,40	14,00	243,17	1,531,82
November	81,41	120,39	2,42	3,38	4,82	1,93	11,23	14,56	240,14	1,771,96
December	91,00	113,68	2,38	3,58	4,76	2,12	11.82	11,01	240,35	2,012,31
January	108,31	115,86	3,51	4,86	6,60	2,92	13,99	10,15	266,20	2,278,51
February	90,19	99,02	3,14	3,92	5,36	2,39	10,29	..	214,31	2,492,82
March	93,97	87,96	3,24	4,52	4,41	2,57	10,19	..	206,86	2,699,68
1942–43										
April	96,70	75,35	3,19	5,02	4,82	2,75	8,61	..	196,44	196,44
May	97,79	76,68	3,95	6,24	6,94	3,74	8,49	..	203,83	400,27
June	82,06	66,40	2,86	4,92	5,48	2,96	7,44	..	172,12	572,39
July	105,05	85,62	3,42	6,53	6,61	4,89	10,49	..	222,61	795,00
August	81,80	66,62	2,65	4,32	4,83	3,61	8,19	..	172,02	967,02
September	79,63	75,87	3,19	4,67	4,66	3,51	9,90	..	181,43	1,148,45
October	124,29	95,16	5,39	6,16	6,96	4,24	12,26	..	254,46	1,402,91
November	101,80	97,13	4,49	6,73	6,14	4,18	11,20	..	231,67	1,634,58
December	111,59	104,41	5,56	7,13	5,74	3,91	12,06	..	250,40	1,884,98
January	152,27	113,35	6,67	10,36	8,96	4,84	13,36	..	309,81	2,194,79
February	130,41	92,20	6,81	9,03	7,69	4,54	13,27	..	263,95	2,458,74
Week ended February 5 ..	32,38	27,86	1,72	2,46	1,79	1,13	4,15	..	71,49	2,266,28
" " 12 ..	33,78	17,86	1,60	2,01	1,90	1,00	2,83	..	60,98	2,327,26
" " 19 ..	32,19	23,07	1,74	2,26	2,07	1,29	3,10	..	65,72	2,392,98
" " 26 ..	32,06	23,41	1,75	2,30	1,93	1,12	3,19	..	65,76	2,458,74

* Excluding Rangoon from February 1942.

Growth of Indian Co-operative Banks
(In thousands of Rupees)

Year	No of Banks	Paid-up Capital	Reserves and other Funds	Total	Deposits and Loans held	Loans Outstanding	Cash Balances*
Calss ' A '—Banks with Capital and Reserves of Rs. 5 lakhs and over							
1930–31	27	1,58,88	97,04	2,55,92	12,57,38	10,69,60	88,23
1931–32	34	1,72,32	1,34,70	3,07,02	15,01,60	11,47,99	1,14,57
1932–33	36	1,86,49	1,72,33	3,58,82	18,09,77	11,41,67	2,46,80
1933–34	35	1,92,19	1,60,86	3,53,05	17,11,99	11,65,57	1,90,51
1934–35	41	2,18,61	2,03,85	4,22,46	17,93,94	13,11,10	2,07,37
1935–36	44	2,39,19	2,42,44	4,81 63	19,89,56	14,47,16	2,79,48
1936–37	45	2,49,81	2,60,10	5,09,91	20,56,71	15,25,26	2,41,06
1937–38	40	2,23,87	2,56,41	4,80,28	19,79,05	14,99,95	1,72,08
1938–39	43	2,40.62	2,94,68	5,35,30	22,92,48	18,33,66	2,03,36
1939–40	41	2,43,21	3,05,01	5,48,22	22,94,33	18,91,00	1,90,06
1940–41	42	2,36,43	3,14,13	5,50,56	22,66,03	17,91,92	2,33,55
1941–42	42	2,40,91	3,14,28	5,55,19	27,04,19	18,33,91	3.16,77
1942–43	42	2,43,49	3,24,96	5,68,45	29,74,67	17,17,48	3,51,34
Class ' B '—Banks with Capital and Reserves between Rs. 1 lakh and Rs. 5 lakhs							
1930–31	172	2,09,01	1,26,29	3,35,30	17,66,15	13,85,18	66,59
1931–32	197	2,31,57	1,46,05	3,77,62	17,75,04	13,99,32	97,73
1932–33	215	2,45,16	1,82,88	4,28,04	20,64,73	14,01,61	1,51,83
1933–34	226	2,52,12	1,99,62	4,51,74	15,99,84	13,74,46	1,16,67
1934–35	229	2,44,42	2,20,38	4,64,80	15,40,51	13,46,53	1,22,35
1935–36	244	2,48,39	2,43,00	4,91,39	14,94,12	13,36,86	1,52,01
1936–37	255	2,57,06	2,57,94	5,15,00	14,76,41	13,28,15	1,36,65
1937–38	256	2,44,40	2,75,80	5,20,20	15,43,86	13,99,65	1,18 28
1938–39	261	2,50,08	2,84,78	5,33,86	15,85,86	14,45,40	1,05,69
1939–40	277	2,61 43	3,06,60	5,68,03	16,14,43	14,63,01	1,26,52
1940–41	279	2,42,45	3,21,80	5,64,25	15,51,81	14,00,54	1,48,76
1941–42	292	2,47,88	3,47,55	5,95,43	17,00,38	13,70,33	1,77,92
1942–43	295	2,54,19	3,58,77	6,12,96	18,19,88	13,53,88	2,81,83

* Includes Government Securities valued at Rs. 33,74,000 Rs. 36,02,000, Rs 96,28,000, Rs. 83,55,000, Rs. 64,35,000, Rs. 80,31 000 Rs. 77 22 000, Rs. 75,58,000 and Rs. 88,71,000 held by the Bombay Provincial Co-operative Bank in each year from 1930-31 to 1939-40 respectively.

Bank Rate since 1860 (of the **Bank** of England)

Year	No. of Changes	Highest	Lowest	Average			Year	No. of Changes	Highest	Lowest	Average		
				£	*s.*	*d.*					£	*s.*	*d*
1860	11	6½	3	4	3	7	1902	3	4	3	3	6	7
1861	11	8	3	5	4	11	1903	3	4	3	3	15	0
1862	5	3	2	2	10	7	1904	2	4	3	3	5	11
1863	12	8	3	4	8	3	1905	3	4	2½	3	0	2
1864	15	9	6	7	7	0	1906	6	6	3½	4	5	4
1865	16	7	3	4	15	5	1907	7	7	4	4	18	6
1866	14	10	3½	6	19	0	1908	6	7	2½	3	0	3
1867	3	3	2	2	10	10	1909	6	5	2½	3	2	0
1868	2	3	2	2	1	11	1910	9	5	3	3	14	5
1869	7	4	2½	3	4	0	1911	4	4½	3	3	9	4
1870	10	6	2½	3	2	0	1912	4	5	3	3	15	5
1871	10	5	2	2	17	8	1913	2	5	4½	4	15	5
1872	14	7	3	4	1	11	1914	8	10	3	4	0	9
1873	24	9	3	4	15	11	1915	None	5	5	5	0	0
1874	13	6	2½	3	13	10	1916	1	6	5	5	9	3
1875	12	6	2	3	4	8	1917	2	6	5	5	3	0
1876	5	5	2	2	12	2	1918	None	5	5	5	0	0
1877	7	5	2	2	18	0	1919	1	6	5	5	3	0
1878	10	6	2	3	15	7	1920	1	7	6	6	14	4
1879	5	5	2	2	10	3	1921	4	7	5	6	2	4
1880	2	3	2½	2	15	3	1922	4	5	3	3	13	9
1881	6	5	2½	3	9	7	1923	1	4	3	3	9	9
1882	6	6	3	4	2	11	1924	None	4	4	4	0	0
1883	6	5	3	3	11	7	1925	4	5	4	4	11	0
1884	7	5	2	2	19	1	1926	None	5	5	5	0	0
1885	7	5	2	2	18	4	1927	1	5	4½	4	13	0
1886	7	5	2	3	1	1	1928	None	4½	4½	4	10	0
1887	7	5	2	3	6	11	1929	5	6½	4½	5	10	0
1888	9	5	2	3	6	1	1930	4	5	3	3	8	5
1889	8	6	2½	3	11	1	1931	4	6	2½	3	18	7
1890	11	6	3	4	10	6	1932	6	6	2	3	0	0
1891	12	5	2½	3	6	5	1933	None	2	2	2	0	0
1892	4	3½	2	2	10	5	1934	None	2	2	2	0	0
1893	12	5	2½	3	1	2	1935	None	2	2	2	0	0
1894	2	3	2	2	2	4	1936	None	2	2	2	0	0
1895	None	2	2	2	0	0	1937	None	2	2	2	0	0
1896	3	4	2	2	9	7	1938	None	2	2	2	0	0
1897	6	4	2	2	12	9	1939	3	4	2	2	5	3
1898	6	4	2½	3	4	11	1940	None	2	2	2	0	0
1899	6	6	3	3	15	1	1941	None	2	2	2	0	0
1900	6	6	3	3	19	3	1942	None	2	2	2	0	0
1901	6	5	3	3	14	5	1943	None	2	2	2	0	0

TABLE
Bank of
End of

LIABILITIES										
No. of Branches	Capital	Per Cent.	Rest	Per Cent.	Note Circulation	Per Cent.	Post Bills	Per Cent.	Deposits	Per cent.
	£		£		£		£		£	
10	14,553,000	4·4	3,344,666	1·1	144,730,510	43·6	2,021	..	169,044,292	51·0
9	14,553,000	2·7	3,400,255	0·6	368,801,566	65·5	1,264	..	175,189,157	31·2
9	14,553,000	2·5	3,421,526	0·6	391,981,846	68·7	1,429	..	159,916,147	28·2
9	14,553,000	2·6	3,436,737	0·6	405,163,800	72·5	..	..	135,422,521	24·3
9	14,553,000	2·6	3,428,981	0·6	424,506,785	75·3	..	..	121,333,662	21·5
9	14,553,000	2·1	3,451,737	0·5	467,406,210	67·5	..		202,185,316	29·9
9	14,553,000	2·1	3,441,563	0·5	505,317,131	73·0	.	..	168,591,894	24·4
9	14,553,000	2·2	3,413,438	0·5	504,726,803	74·6	..	..	153,719,303	22·7
9	14,553,000	1·9	3,362,072	0·5	554,615,983	72·8	..	..	189,080,914	24·8
9	14,553,000	1·7	3,313,330	0·4	616,904,239	74·0	..	..	199,465,436	23·9
9	14,553,000	1·4	3,297,346	0·3	751,725,865	71·3	..	..	285,164,092	27·0
9	14,553,000	1·2	3,309,220	0·2	923,429 669	75·6	..	.	281,232,983	23·0
9	14,553,000	1·0	3,306,938	0·2	1,088,681,948	77·1	.	..	304,968,522	21·6

IX

England

year position

Total Liabilities or Assets	ASSETS					
	Coin and Bullion	Per Cent.	Govt. Securities	Per Cent.	Other Securities	Per Cent.
£	£		£		£	
331,674,489	144,556,367	43·6	83,837,526	25·3	103,280,596	31·0
501,945,242	152,640,787	27·2	325,174,789	57·8	84,129,666	15·0
569,873,948	195,228,035	34·3	342,245,007	60·0	32,400,906	5·7
558,576,058	195,234,129	35·0	344,114,924	61·6	19,227,005	3·4
563,822,428	201,914,149	35·8	339,211,232	60·2	22,697,047	4·0
687,317,263	314,223,879	45·7	334,332,960	48·6	38,760,424	5·7
691,903,588	327,243,763	47·2	334,300,927	48·4	30,358,898	4·4
676,412,538	327,486,956	48·4	298,881,653	44·2	50,043,929	7·4
761,611,969	1,919,484	0·2	727,806,514	95·6	31,885,971	4·2
834,236,005	1,156,056	0·1	804,903,266	96·5	28,176,683	3·4
1,054,740,303	556,270	0·1	1,018,581,594	96·5	35,602,439	3·4
1,222,524,872	1,872,095	0·1	1,190,137,797	97·4	30,514,980	2·5
,411,510,408	1,166,346	0·1	1,380,253,179	97·8	19,075,783	1·3

Position of the Bank of England,
(000's

Date		Issue Department		Banking Department			Bank Rate
		Notes Issued	Circulation	Public Deposits	Bankers' Deposits	Other Deposits	
	1943	£	£	£	£	£	
Sept.	15	1,000,242	981,089	9,020	154,214	55,013	2
	22	1,000,242	980,700	7,204	164,395	53,118	2
	29	1,000,242	986,465	9,336	173,425	55,149	2
Oct.	6	1,050,242	991,260	7,821	150,237	55,239	2
	13	1,050,242	992,731	7,452	148,380	54,738	2
	20	1,050,242	993,430	23,610	140,699	54,081	2
	27	1,050,242	998,462	5,378	190,324	53,078	2
Nov.	3	1,050,242	1,005,063	6,136	152,809	52,476	2
	10	1,050,242	1,010,862	9,640	156,949	52,245	2
	17	1,050,242	1,013,682	8,521	147,349	52,715	2
	24	1,050,242	1,019,047	6,753	183,168	53,254	2
Dec.	1	1,050,242	1,030,824	12,908	168,040	57,560	2
	8	1,100,242	1,045,295	6,272	154,610	52,574	2
	15	1,100,242	1,066,957	8,991	161,153	55,623	2
	22	1,100,242	1,081,022	7,325	169,039	53,743	2
	29	1,100,242	1,088,682	10,338	234,274	60,356	2
	1944						
Jan.	5	1,100,242	1,083,941	9,555	184,054	53,724	2
	12	1,100,242	1,075,307	11,910	188,216	53,970	2
	19	1,100,242	1,067,391	10,966	177,000	53,034	2
	26	1,100,242	1,067,263	8,503	187,785	52,734	2
Feb.	2	1,100,242	1,073,488	10,839	169,619	53,358	2
	9	1,100,242	1,076,040	11,225	161,981	54,292	2
	16	1,100,242	1,075,750	8,652	167,411	53,752	2
	23	1,100,242	1,077,464	8,941	200,318	53,738	2
Mar.	1	1,100,242	1,086,332	10,430	179,916	63,161	2
	8	1,150,242	1,090,601	8,468	162,198	58,949	2
	15	1,150,242	1,091,462	8,422	178,928	59,247	2
	22	1,150,242	1,093,621	7,155	198,794	58,381	2
	29	1,150,242	1,104,634	7,107	188,795	60,168	2
April	5	1,150,242	1,119,228	8,730	166,832	56,830	2
	12	1,150,242	1,123,548	6,587	168,184	56,759	2
	19	1,150,242	1,120,756	7,695	177,382	55,254	2
	26	1,150,242	1,124,493	4,491	198,479	56,945	2
May	3	1,150,242	1,129,170	7,773	158,585	57,712	2
	10	1,150,242	1,129,223	12,144	166,145	55,164	2
	17	1,150,242	1,126,291	16,571	167,236	54,439	2
	24	1,150,242	1,127,807	13,546	177,156	54,566	2
	31	1,150,242	1,135,539	15,033	165,132	58,167	2
June	7	1,150,242	1,135,465	8,998	171,895	58,854	2
	14	1,150,242	1,132,786	11,521	168,177	58,166	2
	21	1,150,242	1,128,714	9,117	179,936	55,151	2
	28	1,150,242	1,130,867	12,519	217,732	55,602	2
July	5	1,150,242	1,134,111	10,100	230,357	57,886	2
	12	1,150,242	1,136,064	10,268	190,282	55,994	2
	19	1,150,242	1,133,571	16,681	170,393	56,547	2
	26	1,150,242	1,136,803	7,694	199,806	55,422	2
Aug.	2	1,200,242	1,146,019	8,705	183,024	58,955	2
	9	1,200,242	1,150,560	9,834	176,090	58,477	2
	16	1,200,242	1,146,946	12,261	171,889	57,339	2
	23	1,200,242	1,144,438	12,424	178,362	58,661	2
	30	1,200,242	1,146,011	14,361	201,889	56,172	2
Sept.	6	1,200,242	1,149,789	9,268	171,790	58,882	2

September 15, 1943 to September 6, 1944
omitted)

Issue Department		Both Depts.	Banking Department				
Govt. Debt and Securities	Other Securities	Gold Coin and Bullion	Govt. Securities	Discounts and Advances	Other Securities	Reserves and the "Proportion"	
£	£	£	£	£	£	£	
999,208	780	1,930	195,561	2,413	17,475	20,800	9·5
999,259	729	1,963	203,792	879	16,850	21,300	9·4
999,302	681	1,896	209,657	1,896	29,020	15,400	6·4
1,049,200	782	1,888	152,177	1,935	16,242	60,600	28·4
1,049,109	875	1,880	150,827	1,355	16,932	59,100	28·0
1,049,134	855	1,983	158,782	1,432	17,319	58,600	26·8
1,049,154	831	2,038	186,882	1,576	24,450	53,600	21·5
1,049,185	803	1,975	163,282	1,002	17,943	46,900	22·1
1,049,126	856	1,943	176,807	1,297	17,377	41,100	18·7
1,049,112	878	1,965	170,712	1,244	16,627	38,300	18·3
1,049,173	818	1,027	205,137	5,974	16,950	32,900	13·5
1,049,283	707	1,827	204,287	6,127	24,879	21,000	8·8
1,099,268	718	1,667	150,612	8,177	16,101	56,400	26·4
1,099,333	654	1,418	191,147	1,982	15,996	34,500	15·2
1,099,255	733	1,281	210,305	1,618	15,769	20,300	8·8
1,099,304	686	1,156	291,965	2,473	15,916	12,500	4·0
1,099,364	623	1,065	231,605	1,610	14,884	17,100	6·9
1,099,462	529	884	224,485	6,071	15,864	25,600	10·0
1,099,259	731	874	204,625	4,762	16,045	33,500	13·8
1,099 292	699	879	215,130	4,359	13,844	33,600	13·4
1,099,402	587	904	204,482	4,251	15,613	27,400	11·7
1,099,384	607	1,020	202,792	1,961	15,731	25,000	10·9
1,099,395	594	1,009	205,472	2,203	14,865	24 000	10·9
1,099,394	594	1,121	240,407	2,102	14,828	23,700	8·9
1,099,288	700	1,040	222,207	9,271	25,345	14,700	5·8
1,149,362	631	923	161,597	9,206	16,523	60,300	26·2
1,149,297	691	842	175,132	14,050	16,088	59,400	24·0
1,149,215	772	746	193,252	15,904	16,117	57,100	21·6
1,149,280	712	682	185,987	15,425	26,691	46,000	17·9
1,149,306	682	643	189,372	13,693	15,574	31,400	13·5
1,149,261	728	584	198,807	8,562	14,798	27,000	11·6
1,149,220	765	612	196,627	15,243	16,298	29,900	12·4
1,149,241	748	680	231,727	5,832	13,850	26,200	10·0
1,149,161	828	675	195,367	7,743	17,168	21,600	9·6
1,149,061	929	714	208,022	5,711	15,960	21,500	9·2
1,149,197	789	772	210,492	5,121	15,903	24,500	10·2
1,149,142	845	863	221,562	2,321	16,086	23,100	9·4
1,149,159	830	940	215,597	961	24,162	15,400	6·4
1,149,195	794	980	224,492	2,193	15,351	15.500	6·4
1,149,150	837	977	216,867	5,157	15,470	18,200	7·6
1,149,157	830	1,029	222,057	2,827	14,846	22,300	9·1
1,149,129	858	1,140	255,262	1,218	26,954	20,300	7·0
1,149,151	833	1,244	280,582	3,452	15,053	17,100	5·7
1,149,190	802	1,224	239,162	4,927	15,182	15,200	5·9
1,149,247	743	1,236	224,412	4,871	14,581	17,700	7·2
1,149,191	802	1,261	249,258	4,667	12,468	14,500	5·4
1,199,271	717	1,300	193,608	5,677	14,063	55,300	22·0
1,199,374	614	1,316	191,258	6,501	13,847	50,800	20·7
1,199,401	588	1,519	186,438	4,231	14,223	54,600	22·5
1,199,322	668	1,652	190,578	5,458	14,190	57,200	22·9
1,199,364	627	1,773	203,283	6,223	25,159	55.800	20·4
1,199,445	541	1,779	187,566	3,993	14,407	52,000	21·6

Bank of England Returns, January 3, 1945

Issue Department

	£		£
Notes Issued—		Government Debt ..	11,015,100
In Circulation ..	1,238,435,919	Other Government Securities	1,238,061,438
In Banking Department	11,805,799	Other Securities ..	915,977
		Silver Coin . ..	7,485
		Amount of Fiduciary Issue	1,250,000,000
		Gold Coin and Bullion (at 168 *s.* per oz. fine) ..	241,718
Total ..	1,250,241,718	Total ..	1,250,241,718

Banking Department

	£		£
Proprietors' Capital ..	14,553,000	Government Securities ..	300,837,764
Rest	3,302,355	Other Securities—	
Public Departmens* ..	16,382,237	Discounts and Advances	15,210,779
		Securities	12,477,926
Other Departments—			
Bankers	251,358,518		27,688,705
Other Accounts ..	56,443,365	Notes	11,805,799
		Gold and Silver Coin ..	1,707,207
	307,801,883		
Total ..	342,039,475	Total ..	342,039,475

* Including Exchequer, Savings Bank, Commissioners of National Debt and Dividend Accounts.

TABLE X

The Bank of Japan

(Yen 000,000's)

	End of:	1929	1936	1937	1938	1939	1940	1941	1942	1943
	Assets									
1.	Gold	1,072	548	801	501	501	501	525†	681	627
2.	Foreign Exchange Fund	.	..	..	300	300	300	300		
3.	Subsidiary coin	37	29	24	46	35	15	25		
4.	Cash items on Government account	50	11	13	34	76	122	85		
5.	Deposits with other banks	37	32	27	30	30	30	29	..	..
6.	Foreign agencies accounts	241	51	52	55	52	64	965	1,020	2,156
7.	Other agencies accounts	30	33	57	110	198	289			
8.	Advances on foreign bills	30	159	163	51	255	143	52	..	..
9	Bills discounted	650	586	465	457	810	676	852	664	2,928
	Of which: According to Law No. 55 of 1927	598	472	408	372	332	289	249	..	..
10.	Advances to Government	22	186	3	3	3	3	2	1	..
11.	Government securities	222	829	1,387	1,841	2,417	3,949	5,340	7,145	7,871
12.	Other assets	5	21	21	34	33	34	37	869	347
13.	Total Balance-sheet	2,396	2,485	3,013	3,462	4,710	6,126	7,712	10,380	13,929
	Liabilities									
14.	Capital paid-up	37	45	45	45	45	45	45	119	131
15.	Reserve	92	115	116	117	118	121	126		
16.	Notes in circulation	1,642	1,866	2,305	2,755	3,679	4,777	5,979	6,921	9,667
17.	Remittances	11	3	8	4	7	6	5	..	..
18.	Current accounts	141	129	132	131	162	229	445	645	984
19.	Government deposits	392	216	292	286	547	738	794	2,034	2,713
	(*a*) On current account	..	105	188	31	37	..	..	..	..
	(*b*) Other	..	111	104	255	510	..	..	..	..
20.	Reserve for settlement of bills discounted under Law No. 55 of 1927	..	4	5	5	6	6	7	..	..
21.	Other liabilities	81	107	110	119	146	204	311	661	434
	Discount rate (%)*	5·48	3·29	3·29	3·29	3·29	3·29	3·29	3·29	3·29

* Date of last change: April 7th 1936.

† Including unspecified "Foreign accounts".

THE BANK OF JAPAN

Gold: Valued up to August 25th, 1937, at the rate of 1 yen = 0 75 gramme of fine gold, thereafter at 0.29 gramme. *Foreign Exchange Fund*: Amount of gold reserve released on July 23rd, 1938, for shipment abroad to establish a revolving foreign exchange credit. The Fund was liquidated in February 1942. *Subsidiary coin*: Including, in addition to silver, nickel and copper coins, small amounts of silver bullion (14,544 yen since 1937). *Bills discounted*: Including, in addition to ordinary discounts, special discounts authorised by the Government in April 1927 with a view to accommodating credit institutions experiencing difficulties. *Advances to the Goverenment*: The outstanding amount was highest in August 1937 (233 millions), after which it was reduced by the profit accruing from the revaluation of the gold reserve. *Other assets*: Including "suspense payments" amounting to 4.4, 15.0, 11.4, 13.4 and 14.8 million yen in 1937-1941. *Notes in circulation*: The fiduciary note issue, amounting to 120 million in 1929, was increased on July 1st, 1932, to 1,000 million on April 1st, 1938, to 1,700 million, on April 1st, 1939, to 2,200 million and on April 1st, 1941, to 4,700 million yen. *Government deposits*: The division into "current account" and "other" is not given in the 1940 annual report; however, in the statement for the last week of Decemeber 1940, "current accounts" amounted to 422 million, and "other" to 708 million yen. *Other liabilities*: Including "suspense receipts" amounting to 74 5, 79.6, 99.1, 136 9 and 231 0 million yen in 1937-1941.

BANKING DEVELOPMENTS IN JAPAN

The Bank of Japan has undergone far-reaching changes under new legislation introduced in March 1942. The statutes were remodelled and two new State-sponsored banks mainly to meet war demands were set up. The Bank of Japan established in 1882 became a creature of the State though it remains in theory the property of its shareholders. The Treasury really determines banking policy; the Bank is just an instrument of national policy. The President and the Vice-President are nominated by the Government, subject to the Emperor's approval, and the Board is chosen by the Minister of Finance. The capital has been raised to 100 million yen of which 5½ million yen is held by the Government. Foreigners cannot make any deposits. Its activities have extended far beyond the routine management of the currency in the war period. The Government is a ready borrower. The Bank has to take up new issues of war loan. It has taken over control of foreign exchange from the Yokohama Specie Bank last year It finances trade and industry at its own discretion. It can act outside the statutes, if directed to do so by the Minister of Finance. It can also put up money for foreign institutions, and the commercial banks' support may be enlisted at the discretion of the Minister. The upper limit to the note issue in Japan was raised in March 1941, to 4,700 million yen, raised again in April 1942 to 6,000 million yen. The transitory regulations were confirmed last year and the limit to the fiduciary issue disappeared. The holding of gold was merged even earlier in the general currency reserve.

The Central Banks of Korea and Formosa have experienced the same changes and their balances with the Bank of Japan are treated as primary cover for their own note issue. The Bank of Japan is invested with authority over East Asia. Occupied areas come within its scope of operations and two new affiliates were set up with the co-operation of other banks under the orders of the Government. The Wartime Financing Bank differs from the South Seas Development Bank in being concerned wth providing new capital for companies in Japan and supporting the stock exchange The Development Bank with a capital of 100 million yen excludes private capital from the South Seas and works under the Government's orders. It looks after the exchange of military notes into local currencies, deals in bullion and sells war bonds to the Occupied territories. If it deals with the local banks only, its place in the Japanese scheme of looting is shown by its subjection to military direction. Branches were set up in April in Singapore, Manila and Batavia and in Borneo, Sumatra and Celebes. The Yokohama Specie Bank opened a branch in Rangoon in May and earlier in Hongkong, Manila and Singapore. It is supposed to supplement the work of the Development Bank which is anxious to make the Occupied territories finance themselves and not take up money wanted in Japan. A puppet bank of Thailand was appended to the wartime creations. Thailand reduced the value of the baht to that of the yen, and the new bank set up in April started to use yen balances as cover for the note issue, the control of which passed from the Ministry of Finance to a new agency committed to the co-prosperity sphere doctrine.

TABLE XI

The South African Reserve Bank

(£ S.A 000,000's)

March 31st:	1929	1937	1938	1939	1940	1941	1942†	1943	1944
Assets									
1. Gold coin and bullion	9·0	28·3	23·5	26·8	33·0	48·0	46·5	65·5	88·3
2. Other coin	0·1	0·1	0·2	0·2	0·2	0·2	0·3	0·5	0·2
3. Foreign exchange	8·8	6·7	6·5	8·3	9·1	2·9	0·3	11·4	23·0
(a) Balances with overseas Central Banks	0·2	0·2	0·1	0·2	0·2	1·4	..	0·3	0·5
(b) Balance employed under the guarantee of the Bank of England	0·5	0·9	0·6	0·5	0·7	0·8	..	1·9	..
(c) Foreign bills discounted	8·1	5·6	5·8	7·6	8·2	0·7	0·3	9·2	22·5
4. Domestic bills discounted	1·2	..	0·4	0·1	0·3	..	..	..	..
(a) Commercial bills	1·0	.	0·4	0·1	0·3	..	..	..	..
(b) Treasury bills	0·2	..	.	..	..	..	..	..	..
5. Loans and advances	0·2	..	0·9	..	..	..	..	0·4	1·8
6. Investments	0·8	1·8	1·8	1·8	2·3	1·7	23·5	27·4	9·5
7. Gold Premium Account	..	12·8	9·7	13·0	19·3	34·4	34·8	53·4	75·4
8 Other assets (including premises)	0·6	1·6	1·1						
9. Total Balance-sheet	20·7	51·3	44·1	50·2	64·2	87·2	105·4	188·6	198·2
Liabilities									
10. Capital	1·0	1·0	1·0	1·0	1·0	1·0	1·0	1·0	1·0
11. Reserve	0·5	1·0	1·0	1·0	1·0	1·0	1·0	1·0	1·0
12. Notes in circulation	9·6	16·4	17·4	18·6	20·4	24·6	28·5	41·4	51·2
13. Notes of other banks in circulation	0·2	0·1	0·1	0·1	0·1	0·1	..	0·1	0·2
14. Deposits	8·4	31·2	21·9	28·0	39·1	57·4	71·6	110·7	142·2
(a) Bankers' Reserve Account	4·8	8·7	8·2	8·8	9·2	11·6	52·1	19·0	22·8
(b) Bankers' Current Account	0·7	14·2	9·4	10·1	15·9	32·9		71·7	101·9
(c) Government and Provincial Current Accounts	2·7	4·8	1·6	6·4	10·5	7·9	14·7	14·3	13·1
(d) Other accounts	0·2	3·5	2·7	2·7	3·5	5·0	4·8	5·6	4·4
15. Other liabilities	1·0	1·6	2·7	1·5	2·6	3·1	3·3	4·4	2·6
Discount rate (%)*	6	3½	3½	3½	3½	3½	3	3	3

* Date of last change: June 2nd, 1941.
† Weekly return, March 6th.

The South African Reserve Bank

(Million £'s)

	Nov. 26, 1943	Nov. 10, 1944	Nov. 17, 1944	Nov. 24, 1944
Assets				
Gold Coin and Bullion	83·11	98·30	98·40	98·45
Bills Discounted	13·22	17·34	18·53	20·03
Investment and Other Assets	88·38	83·86	85·15	84·74
Liabilities				
Notes in Circulation	47·73	54·82	54·14	54·29
Deposits—				
Government	8·43	3·94	4·76	5·47
Bankers'	118·44	146·99	146·04	146·05
Others	7·01	6·80	7·29	7·74
Reserve Ratio	46·0%	46·3%	46·5%	46·2%

THE SOUTH AFRICAN RESERVE BANK

Gold: All gold held on December 28th, 1932, the date on which gold payments were suspended, as well as that bought since, appears at the statutory price of £3 17*s*. 10½*d*. per standard ounce (£1 = 7.32238 gramme of fine gold). *Foreign exchange*: Since 1934, all foreign-exchange holdings are converted into South African pounds at the rate of £100 7*s* 6*d*. South African for £100 British Sterling. *Balances with overseas Central Banks*: The increase in 1941 is due to a larger balance maintained with the Federal Reserve Bank of New York. *Balance employed under the guarantee of the Bank of England*: The balance represents the amount held on the London short-money market. *Foreign bills discounted*: These bills consist mainly of British Treasury Bills. The reduction in this item in 1941 is connected with the repayment of a Union Government loan which fell due in London. *Investments*. These consist entirely of Union Government stocks. *Gold Premium Account*: This item represents the difference between the standard price at which the gold stands in the Bank's books and the market price actually paid for it since January 1933. Under the Currency and Exchange Act of 1933, the profits made on such operations belong to the Government. Since 1939, the balance is not shown separately in the official comment on this item. It is, however, stated in the annual reports that the balance of this account increased by £2.3 million in 1939, by £6.2 million in 1940 and by "about" £15 million in 1941. *Notes of other banks in circulation*: This item represents the balance of the liability assumed in July 1924, by the Bank, under the Currency and Banking Act, for all notes issued by the commercial banks outstanding at that date.

TABLE XII

The Commonwealth Bank of Australia

(£ A 000,000's)

June:	1929	1936	1937	1938	1939	1940	1941	1942	1943	1944
A. Issue Department										
Assets										
1. Gold	22·7	0·3	0·3	0·3	0·3					
2. English sterling reserve ..	20·0	15·7	17·7	15·7	15·7	16·1	17·7	26·6	36·4	49·3
3. Debentures and other securities ..		39·1	38·6	39·3	40·5	54·3	51·4	85·2	113·0	150·1
4. Other assets ..	0·1	0·3	0·9	2·5	0·1	0·4	8·0	0·1	0·1	0·1
5. Total Balance-sheet	42·8	55·4	55·5	57·8	56·6	70·8	77·1	111·9	149·5	199·5
Liabilities										
6. Notes in circulation	42·8	47·0	47·0	49·0	47·5	61·6	67·9	102·6	140·0	191·0
7. Special reserve: premium on gold sold	..	7·8	7·8	7·8	7·8	7·8	7·8	7·8	7·8	6·7
8. Other liabilities ..	..	0·6	0·7	1·0	1·3	1·4	1·4	1·5	1·7	1·8

TABLE XII—*Contd.*

	June:	1929	1936	1937	1938	1939	1940	1941	1942	1943	1944
	B. Banking Department										
	Assets										
9.	Australian notes	5·1	5·5	4·4	3·5	3·0	2·3	2·5	3·8	2·8	2·3
10.	Coin, bullion and cash balances	1·5	1·1	1·1	1·3	1·5	6·1	4·2	5·1	6·0	10 6
11.	Money at short call in London	12·2	22·9	37·9	27·0	16·7	41·6	54·0	33·8	42·1	119·5
12.	Short-term loans in Australia	1·3	7 5	4·6	.	..	..	..	..	..	..
13.	Investments—										
	(a) British, Colonial and Government securities	10·4	9·5	8·9	18·3	15·9	12·4	11·9	11·4	6·0	5·6
	(b) Commonwealth Government securities	6·5	27·3	27·5	30·7	38·6	22·5	37·7	91·4	199·7	223·4
14.	Bills receivable in London and remittances in transit	4·9	2·0	3·6	3·5	2·8	3·1	4·4	9·9	12·3	13·0
15.	Bills discounted, loans and advances to customers and other assets	12·2	9·5	11·5	15·3	19·0	37·0	24·9	35·5	28·4	36·1
16.	Other assets	0·5	4·0	3·5	1·0	0·9	..0·7	0·7	0·6	0·6	0·6
17.	Total Balance-sheet	54·6	89·3	103·0	100·6	98·4	125·7	140·3	191·5	297·9	41[illegible]·1
	Aggregate Balance-sheet (A + B)†	92·3	139·2	154·1	154·9	152·0	194·2	214·9	299·6	444·6	608·3
	Liabilities										
18.	Capital Account	4·0	3·0	4·0	4·0	4·0	4·0	4·0	4·0	4·0	4·0
19.	Reserve Fund	0·6	2·2	2·4	2·6	2·8	3·0	3·2	3·4	3·9	4·1
20.	Rural Credits Department	1·2	2·3	2·3	2·3	2·3	2·3	2·4	2·4	2·4	3·9
21.	Deposits, accrued interest and rebates	43·9	74·9	88·5	85·1	81·8	107·3	120·6	129·9	167·9	214·1
22.	Special war-time deposits by Banks	..	..	..	.	..	..	..	36·9	102·9	185·0
23.	Bills payable and other liabilities	4·9	5·9	5·8	6·6	7·5	9·1	10·1	14·9	16·8	..
	Discount rate (%)‡	6½	4½	4½	4½	4½	4½	4½	4[illegible]	4[illegible]	4[illegible]

* From March 23rd, 1936 onwards, the balance-sheet items hitherto shown in £ sterling are, in accordance with the Commonwealth Bank Act, shown in Australian currency.
† Less notes held in the Banking Department.
‡ Date of last change: November 1st, 1934.

The Commonwealth Bank of Australia
(Million £ A's)

	Dec. 6, 1943	Nov. 20, 1944	Nov. 27, 1944	Dec. 4, 1944
Assets				
Gold and English Sterling	40·54	50·86	50·86	50·86
Other Coin, Bullion, etc.	11·63	20·01	20·98	21·55
Call Money, London	50·96	127·63	130·60	125·30
Securities and Treasury Bills	234·87	219·14	223·54	230·15
Discounts and Advances	17·72	17·61	18·10	18·29
Liabilities				
Notes Issued	159·01	198·49	197·49	196·49
Deposits, etc.	170·78	195·05	196·66	184·30

The Commonwealth Bank Report

The report of the Commonwealth Bank of Australia covering the year to June 30 last, sheds interesting light on two crucial aspects of Australian banking: the external payments position and the continued intrusion of the central bank in commercial banking business. The report states that for the year ended June 30, 1942, the Australian balance of payments on current account, together with some capital inflow, was such that it was possible for the Commonwealth to pay £A47 millions towards the cost of direct defence imports and of the maintenance of armed forces overseas, though not without drawing to some extent on accumulated London balances. This encroachment on sterling resources would seem, by comparison with the latest balance sheet, to have amounted to about £A15 millions. Money at short call in London has fallen over these twelve months by £A20,225,000 to £A33,774,000 and sterling investments by £A462,000 to £A11,433,000. On the other hand, sterling bills and remittances in transit have risen over the same period by £A5,519,000 to £A9,922,000. The principal overseas payments were those needed to meet the costs of maintaining Australian forces in the Middle East and elsewhere and to pay for war equipment other than that obtained on Lend-Lease terms. The extreme scarcity of shipping space has restricted both imports and exports, but the adverse effect of this restriction on the overseas payments position has to some extent been countered by the arrangements of the British Government to pay for the whole wool clip irrespective of whether or not it is shipped. On the question of commercial banking, the report states that the Commonwealth Bank has continued to provide large sums temporarily to finance wheat and other primary products pending sale. In accordance with the policy of the Government, the Bank has also provided finance against Government guarantee to manufacturers, wholesalers and others for purposes directly connected with the war. The extension of these commercial banking operations is seen in the growth of bills discounted, loans and advances from £A24,855,000 to £A35,524,000 over the year. The principal change in the balance is the growth from £A37,745,000 to £A91,419,000 in the holding of Commonwealth Government securities. The ordinary deposits of the Bank have risen by only £A9,300,000 to £A129,949,000, but the special War-Time deposits by banks, which did not figure in the 1941 balance sheet, had, by the end of last June, risen to £A36,886,000. On this evidence, the expansion of central banking credit in Australia has been appreciably greater than the coresponding movement in this country. But the comparison between the two movements cannot be carried further, owing to the active competition between the central bank and the commercial banks which, in contrast to Britain, exists in Australia. Central bank credit in the Commonwealth is not merely the small apex of the inverted credit pyramid. On the contrary, it provides much of the substance of the whole pyramid.

TABLE XIII

The Reserve Bank of New Zealand
(£ N.Z. 000,000's)

March 31st:	1935	1936	1937	1938	1939	1940	1941	1942	1943	1944
Assets										
1. Gold	3·0	2·8	2·8	2·8	2·8	2·8	2·8	2·8	2·8	2·8
2. Sterling exchange ..	22·4	24·9	19·4	16·5	4·7	13·5	17·5	18·5	19·0	28·0
3. Subsidiary coin ..	0·2	0·2	0·2	0·2	0·2	0·2	0·1	0·1	..	0 1
4. Advances to the State or State Undertakings	..	..	7·0	5·2	19·4	22·5	18·4	29·7	35 3	37·5
(*a*) Primary Products Marketing Department ..	..	..	*6·2*	*5·2*	*7·2*	*8·5*	*2·9*	7·7	4·2	1·6
(*b*) Other ..	..	..	*0·8*	..	*12·2*	*19·0*	*15·5*	22·0	31·1	35·9
5. Investments ..	2·1	1·8	2·9	2·4	3·7	3·1	3·8	4·2	10·3	11·7
6. Other assets ..	..	..	0·1	0·1	0·2	0·2	1·6	0·9	2·5	2·6
7. Total Balance-sheet ..	27·7	29·7	32·4	27·2	31·0	42·3	44·2	56·2	69·9	82·7
Liabilities										
8. Capital and General Reserve Fund ..	1·5	1·5	1·5	1·5	1·5	1·5	1·5	1·5	1·5	1·5
9. Bank notes ..	9·4	10·2	13·1	13·5	15·2	18·3	21·4	24·2	30·4	36·2
10. Demand liabilities ..	16·7	17·9	17·7	11·9	13·7	21·6	20·0	29·1	36·4	42·8
(*a*) State ..	*12·2*	*8·8*	*7·9*	*6·1*	*4·4*	*6·9*	*6·3*	12·5	15·6	13·6
(*b*) Banks ..	*4·5*	*9·0*	*8·9*	*5·5*	*8·4*	*14·4*	*12·8*	16·3	20·1	28·7
(*c*) Other ..	..	*0·1*	*0·9*	*0·3*	*0·9*	*0·3*	*0·9*	0·3	0·7	0·5
11. Other liabilities ..	0·1	0·1	0·1	0·3	0·6	0·9	1·3	1·4	1·7	2·2
Discount rate (%)* ..	4	2·5	2	2	4	3	3	1½	1½	1½

* Date of last change: May 27th, 1940.

The Reserve Bank of New Zealand

	Oct. 25, 1943	Oct. 9, 1944	Oct 16, 1944	Oct. 23, 1944
Assets				
Gold and Sterling Exchange ..	31·42	37·80	38·08	38·44
Advances to State	39·16	37·20	27·44	26·63
Investments	10·32	11·74	11·74	11·74
Liabilities				
Bank Notes	34·42	37·80	37·97	37·96
Demand Liabilities: State ..	16·39	18·52	7·57	7·92
Banks and others	29·72	29·09	30·14	27·86
Reserve to Sight Liabilities ..	39·0%	44·2%	50·2%	51·8%

THE RESERVE BANK OF NEW ZEALAND

Gold: Valued at its face value in New Zealand currency (£ N.Z. equals £ sterling). *Sterling exchange*: Exchange eligible as cover for notes and other demand liabilities, valued at the rate £100 sterling equals £ N.Z. 124[illegible]). *Advances*: *Primary Products Marketing Department*: The advances under this heading include a

deficit in respect of the guaranteed price for butter and cheese accumulated prior to the war; the remainder is accounted for by the fact that payments are made to suppliers before receipt of the purchase price from the United Kingdom Government. *Other*: Advances on account of the Government housing program and for general purposes made against the issue of Treasury Bills to the Bank. It is stated in the Annual Report of 1941 that the Government, before March 31st, 1941, had paid off all advances under this heading other than those for housing purposes. *Investments*: Long-dated Government securities. *General Reserve Fund*: In accordance with Section 2 of the Reserve Bank of New Zealand Amendment Act, 1936, the amount of £500,000 shown in 1935 under the heading *Capital*, was transferred on April 1st 1936, to the General Reserve Fund, increasing the total of the latter to £1,500,000.

TABLE XIV

The Bank of Canada
($ 000,000's)

End of:	1935	1936	1937	1938	1939	1940	1941	1942	1943
Assets									
1. Reserve	186·4	190·8	197·7	214·3	290·0	38·4	200·9	0·5	0·5
(a) Gold coin and bullion ..	*180·5*	*179·4*	*179·8*	*185·9*	*225·7*	..	..	..	..
(b) Silver bullion	*1·6*	*2·3*	*3·0*	..	.	..	..	..	..
(c) Sterling and U.S.A. dollars	*4·3*	*9·1*	*14·9*	*28·4*	*64·3*	*38·4*	*200·9*	0·5	0·5
2. Subsidiary coin	0·1	0·1	..	0·2	0·1	0·6	0·3	1·3	0·1
3. Bills discounted	..	..	..	..	..	..	..	..	..
4. Advances	3·5	..	..	..	..	..	..	..	..
(a) Dominion Government ..	*3·5*	..	..	..	..	..	..		
(b) Provincial Governments	..	..	..	..	..	..	..	1·3	..
(c) Chartered banks ..	..	..	..	..	..	..	..		
5. Bills bought in open market, not including Treasury bills									
6. Investments	..	..	..	..	..	..	..	..	..
(a) Dominion and Provincial Government short-term securities	114·3	160·3	186·1	185·5	231·8	575·8	608·5	1016·4	1260·4
(b) Other Dominion and Provincial Government securities	*30·9*	*61·3*	*82·3*	*144·6*	*181·9*	*448·5*	*391·8*	807·2	787·6
	83·4	*99·0*	*91·6*	*40·9*	*49·9*	**127·3**	*216·7*	209·2	472·8
(c) Other securities ..	..	..	*12·2*	..	..	..	..	..	..
7. Other assets	3·4	5·8	6·6	4·9	5·3	11·8	33·2	30·0	47·2
8. Total Balance-sheet ..	307·7	357·0	390·4	404·9	527·2	626·6	842·9	1048·2	308·2
Liabilities									
9. Capital	5·0	10·1	10·1	5·0	5·0	5·0	5·0	5·0	5·0
10. Rest Fund	0·2	0·7	1·3	1·9	2·4	3·7	5·6	6·5	8·0
11. Notes in circulation ..	99·7	135·7	165·3	175·3	132·8	359·9	496·0	693·6	874·4
12. Deposits	200·7	209·0	211·8	321·5	282·2	240·7	315·6	338·6	392·6
(a) Dominion Government	18·3	19·9	12·3	17·8	47·4	13·4	77·6	59·6	34·6
(b) Provincial Governments	..	..	.	..	..	..	..	..	..
(c) Chartered banks ..	181·6	187·0	196·0	200·6	217·0	217·8	232·0	260·0	340·2
(d) Other	0·8	2·1	3·5	3·1	17·8	9·5	6·0	19·0	17·8
13. Other liabilities	2·1	1·5	1·9	1·2	4·8	17·3	20·7	4·5	28·2
Discount rate (%)*	2½	2½	2½	2½	2½	2½	2½	2½	2½

* Unchanged since March 11th, 1935.

The Bank of Canada
(Million Can. $'s)

	Oct. 20, 1943	Oct. 4, 1944	Oct. 11, 1944	Oct 18, 1944
Assets				
Reserve*—				
Gold	..	..	..	..
Other	46·2	48·64	48·04	56·17
Securities	1189·7	1458·65	1458·27	1462·30
Liabilities				
Note Circulation .. .	831·8	990·07	997·06	1002·78
Deposits: Dominion Government	64·0	24·23	35·89	31·48
Chartered Banks	308·5	456·67	452·86	429·23

[1] Gold and foreign exchange transferred to Foreign Exchange Control Board against securities.

THE BANK OF CANADA

Gold: Valued at the current selling price on the London or New York market converted into Canadian dollars at the rate of exchange of the day An Order in Council (Exchange Fund Order) of April 30th, 1940, provided for the sale of the Bank's gold holdings to the Foreign Exchange Control Board and for temporary suspension of the Bank's minimum gold reserve requirement. The amount of gold sold to the Board on May 1st, 1940, under this Order was 5,888,565 fine ounces, valued at $225.8 millions. *Sterling and U.S.A. dollars*: This item included up to 1939 small amounts of "Other currencies of countries on a gold standard". By virtue of on Order in Council (Foreign Exchange Acquisition Order) of April 30th, 1940, the Bank sold to the Foreign Exchange Control Board on May 1st, 1940, foreign exchange amounting to $28 millions. At the end of 1941, the exchange holdings shown under this item were stated in the Bank's annual report to be "made up almost entirely of sterling". *Investment*: *Dominion and Provincial Government Securities*: *Short-term*: Maturing within two years. *Other*: Those having maturity longer than two years. The major part of the increase in this item in 1940 was caused by the purchase from the Foreign Exchange Control Board of $250 millions of one-year 1 per cent. Dominion Government Notes in connection with the sale of gold and foreign exchange to the Board, referred to above. *Other Securities*: Securities held under the provisions of the Bank of Canada Act, Sections 21 (e) and (f), may be securities issued by the United Kingdom, any British Dominion, the United States of America or France. *Other assets and liabilities*: The principal items outstanding in these accounts are cheques in course of clearance and Bank of Canada drafts issued but not presented for payment. Since the war, the volume of such transactions outstanding has tended to increase because of the growth in the receipts and payments of the Dominion Government,

TABLE XV

The U.S. Federal Reserve Banks

End of*:	1929	1936	1937	1938	1939	1940	1941	1942	1943
Assets									
1. Gold and gold certificates	2,857	8,865	9,129	11,798	15,209	19,760	20,504	20,554	19,766
(a) Gold certificates on hand and due from U.S. Treasury—									
(1) Gold certificates with Federal Reserve agents		4,619	4,729	4,888	5,371	6,380	8,724	12,467	13,266
(2) Gold certificates in inter-district settlement fund with Board of Governors	2,857	2,723	2,881	5,389	8,318	11,861	10,256	6,546	5,256
(3) Gold certificates held by banks		1,510	1,510	1,511	1,510	1,510	1,510	1,510	1,010
(b) Redemption Fund-Federal Reserve notes		13	9	10	10	9	14	31	234
2. Other cash	236	257	352	368	315	275	261	354	330
(a) Silver certificates, standard silver dollars, subsidiary coins	93	197	289	279	242	219	230	240	291
(b) United States notes, National and Federal Reserve bank notes	143	60	63	89	73	56	31	114	39
3. Due from foreign banks	1	..	..	..	..	..	..	..	..
4. Bills	1,025	6	12	5	7	3	3	6	5
(a) Bills discounted—									
(1) Secured by U.S. Government obligations	354	2	6	2	1	1	2	3	5
(2) Other bills discounted	279	1	3	2	6	2	1	3	..
(b) Bills bought in open market—									
(1) Payable in U.S. currency	392	..	..	..	..	..	..	..	..
(2) Payable in foreign currencies		3	3	1	..	..	..	..	..
5. Industrial advances	..	25	18	16	11	8	10	14	10
6. Securities	523	2,430	2,565	2,564	2,484	2,184	2,254	6,189	11,543
(a) U.S. Government securities—									
(1) Bonds	77	491	752	841	1,351	1,285	1,467	2,793	1,630
(2) Treasury notes	216	1,341	1,155	1,157	1,133	899	777	1,345	678
(3) Certificates of indebtedness	162	..	..	..	..	..	..	1,041	2,467
(4) Treasury bills	56	598	658	566	..	..	10	1,010	2,923
(b) Other securities	12	..	..	..	..	..	..	..	3,845
7. Uncollected items	707	825	694	711	867	912	1,201	1,717	2,113
8. Other assets	69	88	83	88	103	90	84	128	99
9. Total Balance-sheet†	5,418	12,496	12,853	15,650	18,996	23,232	24,317	28,962	33,866

* Before closing books at end of year.
† Excluding holdings of Federal Reserve notes of other Reserve Banks.

TABLE XV.—*Contd.*

End of:	1929	1936	1937	1938	1939	1940	1941	1942	1943
Liabilities									
10. Capital paid in	171	131	133	135	136	139	142	146	154
11. Reserves	260	207	209	207	209	213	230	231	235
12. Federal Reserve notes in actual circulation†	1,868	4,251	4,254	4,419	4,926	5,899	8,156	12,136	16,815
13. Deposits	2,408	7,108	7,576	10,087	12,940	16,126	14,678	15,192	15,180
(*a*) Member bank—reserve account	2,354	6,606	7,026	8,723	11,653	14,025	12,450	13 116	12,886
(*b*) U.S. Treasurer-general account	25	244	142	923	634	369	868	799	578
(*c*) Foreign banks	6	99	172	199	397	1,133	774	793	1,360
(*d*) Non-member clearing account	20	123	95	102	166	365	320	139	129
(*e*) Other deposits	3	36	141	140	90	234	266	345	227
14. Deferred availability items ..	673	786	674	694	777	833	1,107	1,247	1,432
15. Other liabilities	38	13	7	8	8	22	4	10	50
Discount rate of the twelve Federal Reserve Banks (simple arithmetic average of daily rates) (%)‡ ..	4·75	1·91	1·46	1·46	1·21	1·21	1·21	1	1
Discount rate at the Federal Reserve Bank of New York (%)§ ..	4½	1½	1	1	1	1	1	1	1

‡ Date of last change: September 1939.
§ Date of last change August 27th, 1937.

The U.S. Federal Reserve Banks

	Dec. 30, 1943	Dec. 14, 1944	Dec. 21, 1944	Dec. 28, 1944
12 U.S.F.R. Banks *Resources*				
Gold Certificates on hand and due from Treasury	19,615	17,919	17,889	17,859
Total Reserves	20,148	18,733	18,703	18,691
Total Cash Reserves	315	233	226	224
Total U.S. Government Securities ..	11,615	18,577	19,009	19,064
Total loans and Securities	11,726	18,759	19,233	19,223
Total Resources	34,252	39,794	40,174	40,202
Liabilities				
F.R. Notes in Circulation	16,875	21,542	21,675	21,725
Excess Member Bank Reserves ..	1,130	1,300	1,250	1,400
Member Bank Reserve Deposits ..	12,769	14,092	13,958	13,969
Government Deposits . ..	764	503	377	901
Total Deposits	15,441	16,192	16,830	16,471
Total Liabilities	34,252	39,794	40,174	40,202
Reserve Ratio	62·3%	49·6%	48·8%	48·9%
Bank and Treasury *Resources*				
Monetary Gold Stock	22,004	20,667	20,636	20,639
Treasury and Bank Currency ..	4,096	4,123	4,127	4,131
Liabilities				
Money in Circulation	20,428	25,163	25,280	25,335
Treasury Cash and Deposit ..	3,080	2,851	3,609	3,278

All Member Banks—U.S.A.

End of :	1937	1938	1939	940	1941	1942	1943
Number of : Banks	6,341	6,338	6,362	6,486	6,619	6,679	6,738
Branches	2,479	2.491	2,520	2,541	2.5.0	2,615	2,793
Assets				($ 000,000's)			
1. Cash	7,594	9,440	12,445	14,983	13,483	14,091	13.967
(*a*) Gold, Silver and small coins	..	..	..	..	..	..	..
(*b*) Inland notes and balance with Central Bank	..	..	..	..	..	..	..
2. Other items of a Cash Nature	2,259	1,759	1,807	2,784	3,383	4,030	4,353
3. Bills discounted and bought	..	..	..	..	..	..	..
(*a*) Treasury Bills	..	..	..	..	..	..	..
(*b*) Commercial Bills—Inland	..	..	..	..	..	..	..
(*c*) Commercial Bills—Foreign	..	..	..	..	..	..	..
4. Investments and Securities	17,794	18,862	19,979	21,806	25,500	43,175	57,971
(*a*) Government	14,418	15,670	17,020	18,836	22,629	40,511	55,677
(*b*) Other	3,376	3,192	2,959	2,970	2,871	2,664	2,294
5. Participations	..	..	..	..	..	..	..
6. Due from Banks (Correspondents)	3,484	4,291	5,530	6,196	6,257	6,159	5,470
(*a*) At Home	3,414	4,240	5,506	6,185	6,246	6,146	5,450
(*b*) Abroad	70	51	24	11	11	13	20
7. Loans and Advances	13,958	13,208	13,962	15,321	18,021	16,088	16,288
(*a*) On Current Account	..	..	..	..	..	..	..
(*b*) Other	..	..	..	..	..	..	..
8. Cover for Acceptances	155	121	108	83	72	41	44
9. Premises, etc.	971	945	924	914	911	904	861
10. Sundry Assets	529	704	606	571	494	428	418
11. *Total Balance Sheet*	46,744	49,330	55,361	62,658	68,121	84,916	99,372
Liabilities							
12. Capital Paid-up	2,431	2,403	2,363	2,356	2,362	2,379	2,416
13. Reserve Funds	2,338	2,386	2,484	2,620	2,749	2,875	3,1[illegible]3
14. Profit and Loss, etc.	603	636	675	721	775	847	866
15. Notes in Circulation	..	..	..	..	..	..	..
16. Cheques and Drafts, etc., in Circulation	767	547	563	913	1,009	1,142	1,573
17. Due to Banks (Correspondents)	6,028	7,153	9,411	10,422	10,525	10,999	10,556
(*a*) At Home	5,565	6,642	8,652	9,716	9,847	10,183	9,661
(*b*) Abroad	463	511	759	[illegible]06	678	816	895
18. Deposits	34,043	35,664	39,366	45,094	50,183	66,135	80,135
(*a*) Current Accounts and Sight Deposits	22,660	24,295	27,668	32,916	37,837	53,380	64,866
(*b*) Savings Accounts							
(*c*) Time or Fixed Deposits	11,383	11,369	11,698	12,178	12,346	12,755	15,269
19. Re-discounts and other Borrowings	15	6	3	3	4	5	39
20. Acceptance and Endorsements	174	138	124	97	86	46	54
21. Sundry Liabilities	345	397	372	432	428	488	540

TABLE XVII

The Bank of France
(Francs, 000,000's)

December 24th :	1929	1936	1937†	1938‡	1939§	1940‖	1941	1942	1943
Assets									
1. Gold reserve (coins and ingots)	41,622	60,359	58,933	87,265	97,267	84,616	84,598	84,958	84,958
2. Silver coins and token money	222	552	378	540	905	674	563	3'0	287
3 Postal current accounts ..	761	769	626	641	1,135	1,168	1,249	1,585	1,845
4. Advances on gold coins and bars	..	1,258	..	..	..	..	..	.	..
5. Foreign assets .. .	26,053	1,462	919	819	112	42	38	37	37
(a) Sight funds abroad ..	7,281	10	29	16	44	36	37	37	37
(b) Foreign bills discounted	22	15	20	22	29	1	1	..	..
(c) Negotiable bills and other short-term investments abroad ..	18,750	1,437	870	781	39	5	..	..	..
6. Domestic bills portfolio ..	14,083	14,832	15,363	16,675	18,256	47,501	46,293	49,431	51,693
(a) Bills discounted .	8,436	7,544	8,744	7,442	4,677	3,646	4,369	5,464	6,965
(b) Agricultural bills and warrants rediscounted	..	584	674	1,794	2,345	661	17	181	29
(c) Bills rediscounted for peoples' banks ..	..	757	1	..	.	..	..	..	..
(d) Negotiable bills purchased in France ..	35	307	307	1,909	5,779	7,802	6,604	8,545	9,518
(e) Negotiable Treasury bills (Convention of February 29th, 1940)	..	..	..	..	..	30,000	30,000	30,000	30,0C0
(f) Negotiable bills of the Caisse autonome d' amortissement ..	5,612	5,640	5,637	5,530	5,455	5,392	5,303	5,241	5,181
7. Advances on securities ..	2,507	3,509	3,693	3,640	3,564	3,967	3,205	2,807	2,848
8. 30-day advances on Treasury bonds maturing within two years	..	342	530	448	236	721	425	524	680
9. Non-interest-bearing loans to the State	3,200	3,200	3,200	10,000	10,000	10,000	10,000	10,000	10,000
10. Provisional non-interest-bearing advances to the State	..	16,098	26,909	20,628	32,273	136,217	207,704	2,76,376	3,91,1 1
(a) Convention of June 18th, 1936—									
Articles 1 and 2 ..	..	12,298	12,089	..	..	..	..	..	..
Article 3	..	3,800	10,000	..	..	..	..	..	..
(b) Convention of June 30th, 1937, etc. ..	..	..	4,820	..	..	..	..	..	..
(c) Convention of November 12th, 1938, etc ..	..	..	..	20,628	20,473	..	..	..	..
(d) Convention of September 29th, 1938, etc. ..	..	..	..	..	11,800	63,900	68,700	C8,450	63,850
(e) Convention of August 25th, 1940, etc. ..	..	..	..	..	..	72,317	139,004	207,926	327,30
11. *Rentes* held for special purposes	113	113	113	113	113	113	113	113	113
12. Other assets	1,674	2,481	3,015	2,819	3,935	6,536	4,818	4,713	5,642
13. Total Balance-sheet ..	90,235	104,975	113,679	143,588	167,796	291,555	359,006	430,494	548,894

† December 23rd.
‡ December 26th.
§ December 21st.
¶ December 22nd.

TABLE XVII—*Contd.*

	December 24th :	1929	1936	1937	1938	1939	1940	1941	1942	1943
	Liabilities									
14.	Capital	183	183	183	183	183	183	183	183	183
15.	Reserve funds	299	321	329	329	329	329	329	329	329
16.	Notes in circulation ..	67,769	87,420	91,263	108,532	149,416	218,383	266,761	378,902	497,759
17.	Creditors in current account	20,094	14,792	19,081	32,199	15,381	69,587	88,437	47,131	46,379
	(*a*) Treasury	7,662	137	32	3,669	96	276	56	34	14
	(*b*) Caisse autonome d' amortissement ..	4,506	1,968	2,391	2,241	1,898	708	1,498	724	703
	(*c*) Other current accounts and deposits ..	7,519	12,613	16,548	26.163	13,143	24,519	22,435	29,345	29,219
	(*d*) Other sight liabilities ..	407	74	110	126	244	2,684	2,342	1,740	361
	(*e*) Central Administration of the Reich Credit Offices	..	..	..	..	..	41,400	62,106	15,288	16,082
18.	Profit-and-loss accounts ..	309	119	119	45	58	360	204	295	227
19.	Other liabilities	1,581	2,140	2,704	2,300	2,429	2,713	3,092	3,654	4,027
	Discount rate (%)* ..	3½	2	3	2½	2	2	1·75	1¾	1¾

[1] Date of last change: March 17th 1941.

Gold: Valued during the period covered at the following rates in grammes of fine gold: Until October 2nd, 1936: 0.05895 gramme; October 2nd 1936 to July 21st 1937: 0.0441 gramme; July 21st 1937 to November 12th 1938: 0.0387 gramme; November 12th 1938 to February 29th 1940: 0.02475 gramme; since February 29th 1940: 0.021006 gramme. The gold held in the Exchange Stabilisation Fund is not included in item 1; disclosed figures of such additional reserves were: 12,502 million francs on December 31st 1938; 15,772 million francs on May 31st 1939. On April 20th 1939, and again on August 3rd 1939, 5,000 million francs of gold were transferred from Exchange Stabilisation Fund to Bank of France; on March 7th 1940, 30,000 francs of gold were transferred from Bank of France to Stabilisation Fund. Most, if not the whole, of France's gold reserve was removed in 1940 to places outside the Continent of Europe.

TABLE XVIII

The Reichsbank
(Reichsmarks, 000,000's)

End of:	1929	1936	1937	1938	1939	1940	1941	1942	1943
Assets									
1. Gold	2,283	66	71	71	71	71	71	71	71
2. Cash	177	158	119	133	456	340	225	358	529
(a) Subsidiary coin	89	123	111	116	350	118	88	115	29
(b) Notes of the "Rentenbank"	84	35	8	17	115	222	137	243	500
(c) Notes of the "Privatnotenbanken"	4	..	..	..	..	..	..	..	..
3. Balances with postal cheque offices	20	14	29	48	39	52	119	117	244
4. Foreign exchange	812	111	190	198	225	50	35	7	22
(a) Balances in foreign currencies	413	15	21	30	35	19	20	7	15
(b) Foreign bills and cheques	396	94	166	166	187	29	11	6	5
(c) Foreign bank notes	3	2	3	2	3	2	4	4	2
5. Claims in RM. on foreign correspondents	..	8	8	10	13	14	4	3	2
6. Domestic bill and cheque holdings	2,453	5,419	5,966	8,080	11,201	15,390	21,649	29,278	41,337
(a) Treasury bills	241	62	119	121	..	..	..	..	..
(b) Other bills and cheques	2,212	2,357	5,847	7,959	..	..	..	..	
7. Securities	93	534	404	864	1 222	389	390	297	66
(a) Eligible as note cover	..	222	106	565	804	32	107	87	1
(b) Other	93	312	298	299	418	357	283	210	65
8. Loans against collateral	251	74	60	45	30	38	32	25	27
9. Current advances to the Reich	..	..	43	209	985	580	895	..	629
10. Claims due on balance from the Reich	109	95	94	93	91	90	896	1,024	781
11. Other assets	178	277	368	908	664	741			
12. Total Balance-sheet	6,376	6,756	7,352	10,659	15,006	17,755	24,316	31,200	43,708
Liabilities									
13. Capital	123	150	150	150	150	150	150	150	150
14. Reserves	371	493	514	582	645	669	743	838	960
(a) Legal	54	79	83	87	99	114	135	150	150
(b) For doubtful assets	90	242	242	275	320	320	350	400	500
(c) Other	227	172	189	220	226	235	258	288	310
15. Notes in circulation	5,044	4,980	5,493	8,223	11,798	14,033	19,325	24,375	33,683
16. *Giro* and deposit accounts	755	1,012	1,059	1,527	2,018	2.561	3,649	5,292	8,186
17. Due in foreign exchange	..	..	2	..	..	..	..	..	..
18. Other liabilities	83	121	134	177	395	342	449	545	729
Discount rate (%)*	7	4	4	4	4	$3\frac{1}{2}$	$3\frac{1}{2}$	$3\frac{1}{2}$	$3\frac{1}{2}$

* Date of last change: April 9th 1940.

THE REICHSBANK

Gold: Valued at the rate of 1 Reichsmark = 0.3592 gramme of fine gold. *Cash*: *Subsidiary coin*: Including small amounts of silver (332 thousand in 1929; 13 thousand in 1939). *Notes of the "Rentenbank"*: These notes which, according to the Rentenbank Law of 1924, were being gradually withdrawn, were again issued by virtue of a Decree of September 4th 1939. *Notes of the "Privatnotenbanken"*: The "Privatnotenbanken" were wound up at the end of 1935. *Domestic bill and cheque holdings*: Item shown as "Other bills and cheques" includes in 1938-41 substantial amounts of Government short-term securities which have been the principal means of financing Germany's armament and war expenditure. *Securities*: Securities shown as "Eligible as note cover" are those bought in the open market. *Current advances to the Reich*: Advances to the Reich (Betriebskredite). *Other assets*· Including, *inter alia* (in million Reichsmarks): (*a*) Government debt C taken over from the former Austrian National Bank": 1938: 105; 1939: 101; 1940: 100; (*b*) "Claims arising from exchange of Czecho-Slovak currency": 1938: 307; (*c*) "Claims arising from the liquidation of the Bank of Danzig": 1939: 31; (*d*) "Claims against the Reich Credit Agencies for their notes cashed": 1939: 10. *Total Balance-Sheet*: Excluding: (*a*) Holdings of own bank notes; (*b*) Notes no longer fit for circulation; (*c*) a *per contra* item "Postponed claim on the German Government by virtue of the Law of August 30th 1924, for the liquidation of the Rentenbank notes in circulation". *Reserves*: "Other" includes pension funds, special reserve for dividend payments, reserves for printing of notes, building purposes and (in 1929) for an increase of capital. *Note circulation*: Excluding notes held as till money.

THE REICHSBANK NOTE EXPANSION

At the end of May the note issue of the Reichsbank attained Rm. 20,547,951,000 Although the next return showed a decline as a result of the usual repayment of end-of-month loans, it still remained well over 20 milliard level. In three years the note issue has increased by more than 200 per cent., while since the beginning of this year alone it has increased by 33 per cent. During 1939 the expansion was comparatively moderate—from Rm. 6.26 milliards to Rm. 8.52 milliards. In 1940, when German arms production reached its peak, the advance was much steeper—an increase of nearly fifty per cent.—to Rm. 2.59 milliards. A year later the total in circulation reached Rm. 15.21 milliards. The rate of expansion during 1941, in other words, was only about half that of the previous year, presumably because there was no further material expansion of arms production, and because the victories of the spring and summer inspired sufficient confidence to enable the Government of the Reich to re-borrow from the public most of what was spent in excess of revenue. On the other hand, the accentuation of the pace of currency inflation this year may have been due to the decline of confidence in ultimate victory, as a result of which the public is now less willing to lend to the Government or even to deposit its money with the

banks. It is necessary to point out that the expansion of the note issue since the war has not to any noteworthy extent been due to the expansion of the territory of the Reich. The German authorities have taken elaborate measures to prevent the circulation of Reichsbank notes in occupied territory. They issued special occupation marks for that purpose, and both troops and civilian travellers are forbidden to take Reichsbank notes with them to occupied countries. It is only in Alsace-Lorraine, Luxembourg, Danzig, Polish Silesia and other Polish territories which have been added to the Reich (as distinct from the territory of the General Government) that Reichsbank notes are allowed to circulate, and these territories can only account for a fraction of the increase. The pace of note withdrawals in recent months seem to indicate that the Government is beginning to lose its grip on the financial situation, which has hitherto been managed very efficiently.

TABLE XIX

Union of Soviet Socialist Republilcs
(Roubles, 000,000's)

January 1st :	1929	1930	1931	1932	1933	1934	1935	1936	1937
Bank-notes	1,122·6	1,537·0	2,100·4	2,784·4	4,099·1	3,432·5	3,838·4	5,723·1	8,020·3
Treasury notes	763·0	1,074·4	1,977·7	2,577·4	3,949·9	3,060·6	3,499·0	3,567·9	2,800·4
Coins	211·7	249·6	277·1	311·5	364·0	368·4	396·4	419·4	434·9
Total ..	2,097·3	2,861·0	4,355·2	5,673·3	8,413·0	6,861·5	7,733·8	9,710·4	11,255·6

State Bank of the U.S.S.R.
(Roubles, 000,000's)

January 1st	Assets				Total Balance-sheet	Liabilities				
	Precious Metals and Foreign Exchange	Short-Term Loans	Govern-ment Securities	Sundry Assets		Capital and Profits	Bank-Notes and Treasury Notes in Circu-lation	Current Accounts and Deposits	Branch Accounts, items in transit and Letters of Credit	Sundry Liabilities
1932	719·9	10,217·7	4,113·5	1,525·8	16,576·9	1,212·9	5,361·8	8,538·9	396·0	1,067·2
1933	839·0	10,451·7	5,974·2	4,910·6	22,175·5	1,190·1	8,049·0	10,825·3	871·6	1,239·5
1934	941·1	14,192·8	6,000·2	4,407·0	25,541·1	1,525·8	6,493·1	15,442·7	826·9	1,252·6
1935	957·8	17,223·3	6,134·9	4,588·9	28,904·9	1,756·0	7,337·4	17,588·2	706·1	1,517·2
1936	1,079·4	26,666·0	6,138·2	5,192·3	39,075·9	2,292·3	9,291·0	20,472·7	2,424·8	4,595·1
1937	2,215·3	34,819·3	6,138·3	6,484·9	49,657·8	2,207·5	10,820·7	26,561·3	5,344·6	4,723·7

State Bank: After the banking reforms of 1930 and 1931, which were described in the chapter on the Union of Soviet Socialist Republics in *Commercial Banks*, 1929-1934, on page 117, the State Bank became the sole institution for the supply of short-term credit to production and trade. All payments between the individual State enterprises and organisations are effected through current accounts at the State Bank. The Bank maintains 3,000 branch offices.

Recent Economic Measures affecting the Monetary Circulation: The system of rationing was abolished for bread on January 1st 1935, for other foodstuffs on October 1st 1935, and for manufactured articles on January 1st 1936, while money wages were increased in compensation. With the consequent rise in the turnover of retail trade, cash transactions relating to consumption goods have increased —a fact which has obviously influenced the volume of notes and coins in circulation

Value of Currency: Under a Decree of November 1935, the selling-rate for roubles to foreign tourists was fixed on the basis of a rate on 1 rouble = 3 French francs (as compared with the gold parity of 1 rouble = 13.20 francs). By a decree of February 1936, the new exchange rates corresponding to the rate of 1 rouble = 3 francs were extended to all other exchange transactions with foreign countries. On April 1st 1936, the State Bank revalued its gold stock on the basis of the new rate; the surplus resulting from the revaluation was transferred to the Treasury. After the devaluation of the French franc on September 26th 1936, foreign-exchange rates were fixed on the basis of 1 rouble = 4.25 francs.

Reduction of Interest Rates: In July 1936, the interest rates charged by the State Bank on short-term loans and overdue loans were reduced from 6 per cent. and 8 per cent. respectively to 4 per cent. and 6 per cent.; the rate allowed on savings-bank deposits was lowered from 8 per ceet. to 3 per cent.; and the interest on the internal State loans which have been issued since 1927 at rates of 8 to 10 per cent. was reduced to a uniform level of 4 per cent.

Source: The above tables have been kindly furnished by the State Bank of the Union of Soviet Socialist Republics.

SOVIET BANKING

The role of banking within the framework of the Soviet economy has been greatly reduced by the course of the war. The most important functions of the Soviet system of credit have been largely brought to a standstill and the position in banking is now in many respects the same as it was in the early period of the Soviet regime. Figures relating to banking operations were very rarely published even in peace-time, and they have been unavailable since the outbreak of war. But the briefest consideration of the role of credit in the planned economy of Russia shows at once that the war must have relegated the whole of the banking apparatus to the background.

The chief feature of Soviet war finance is the absence of any financial technique in the accepted meaning of the word. All the industrial resources of the country are owned by the State. The Government's command over raw materials, machinery and labour is almost unlimited. War industries work on the basis of governmental orders and allocations. No acts of purchase enter at any

stage of the process, except in agriculture. The whole of the country's industry forms, to all intents and purposes, one huge combine under a single command; the various branches of industry are simply interdependent departments of that combine Masses of raw materials, semi-manufactured products, manufactured goods and labour are shifted from one department to another without any change of ownership. Where there are no acts of purchase, there should be no need to acquire purchasing power in any form, and particularly in the form of credit.

In theory, the position was the same in peace-time. This gave rise to the notion of a moneyless economy, in which there should be no room left for banking operations. Planning and the direct allocation of goods to trusts, factories and individuals, has, in theory remained the ultimate goal towards which the economic life of the Soviets is supposed to be steadily developing. But, in peacetime, the gap between theory and practice was very wide. Money 'withered away' only to a limited extent; and, before the war, credit operations were still carried out on a large scale. But the functions of the Soviet system of credit were very different from those performed by banking in the rest of the world. Credit was used, first, as a means of securing the proper proportion between investments in various branches of the national economy, secondly, it was used as a means of controlling the productive efficiency of Industrial establishments.

During the early period of planned industrialisation (upto 1932) there was a general scramble for raw materials and machinery between the managements of various industries. Over-investment in capital goods, the accumulation of unduly large stocks and consequently enormous immobilisation of working capital occurred in some branches of industry, while in others, plans were obstructed by inadequate supplies of machinery and raw materials. Towards the end of the first Five-Year Plan, the structure of the planned economy was threatened with disruption. A thoroughgoing reform of industrial accountancy and credit provided the remedy. Individual establishments, as well as trusts, were compelled to work on the basis of a profit and loss account Credit facilities were strictly limited. The banks were forbidden to give any short-term credits in which a monopoly was given to the Gosbank (the Central State Bank). The other state banks were allotted special spheres of long-term credit. The Prombank (Bank for Industry) specialised in financing industrial investment in capital goods. The Selkhozbank (Bank for Agriculture) performed the same function in agriculture; the Co-operative Bank supplied long-term credit to the network of co-operative retail shops; and the Communal Bank provided the means for investment in public utilities. All these banks derived their funds from their customers' compulsory deposits and from budgetary grants. They were all, in their turn obliged to keep balances with the Central Bank, which thus possessed complete control over the country's industrial activities. The Gosbank worked in close contact with the Gosplan, the State Planning Committee, and subordinated credit policy to the requirements of the general economic plan Thus, during the second and third Five-Year Plans, a better equilibrium between investment in various industrial branches was secured.

The anxiety to maintain the right proportion between various productive branches, has of necessity, enormously diminished since the war So has the role of credit which was mainly a means of maintaining these proportions. The loss of raw materials and manufacturing capacity, as well as the evacuation of industries, has caused such tremendous dislocations that all previous proportions have been utterly upset. Even the factories established in the eastern reception areas before the war could hardly stick to any normal business standards; they have had to share their stocks of raw materials, their machinery and labour with the evacuated units. The main preoccupation has been to squeeze out the maximum of war implements from every plant within the shortest possible time by every *ad hoc* means Inhibitions of a financial nature would only cause undue delays in production and supply. The Soviet press has, in fact, reported cases in which industrial managers were reluctant to share their raw materials or machinery with evacuated plants; they were apparently afraid of transgressing upon the peacetime conditions of finance and credit—credit between various industrial establishments was then strictly forbidden. But such inhibitions have been overcome by the all-round militarisation of industry, by the direct pooling and allocation of resources and so forth.

The Prombank used to provide long-term money mainly through trusts which distributed it among individual establishments But the structure of most of the trusts has been disrupted in the course of the war. Evacuated plants had to improvise new business links with new concerns, paying no heed to any money or credit aspects of their work. The Bank for Agriculture has actually lost its *raison d' etre,* since no long-term investment in agriculture can possibly have been made. The same applies to the Co-operative Bank and to the Communal Bank. The demand for short-term credit, on the other hand, must have grown considerably. The wages bill of the eastern industries must have grown, as a result of the industrial evacuation, beyond their normal cash and credit reserves. It is possible, therefore, that the above-mentioned banks have had to switch over from long-term to short-term credit and to intervene in fields from which they were barred before the war. But the main pressure has almost certainly been brought to bear on the Gosbank, which specialised in short-term credit previously.

The only type of Soviet bank which has been able to work along more or less peace-time lines is the Savings Bank, although most of the sixty thousand local branches of the savings banks lay in the German-occupied territories. It is said that during the first half of 1942 saving deposits grew by one milliard roubles, presumably after a substantial withdrawal of deposits during the second half of 1941. The savings banks have been instrumental in distributing the war lottery tickets and the war loan among their customers.

It seems feasible that in spite of the abnormal conditions, no big increase in currency in circulation has taken place. The supply of raw materials and machinery has required hardly any outlay in money. The increase in currency, stimulated by a higher wages bill, has probably been to a large extent offset by the organisation of communal feeding inside the factories. The workers spend most of their wages at the shops or canteens of the Workers' Supply Departments, which

are themselves parts of the factories. Thus, much of the money laid out in payment of wages returns, *via* the Supply Departments, directly to the factory's cashier, who can use it again to cover the next wages bill. Moreover, inflation of prices resulting from a scarcity of goods rather than from an expansion in the currency can affect only the prices of foodstuffs in the limited private sector of retail trade.

It should be remembered that Russia possesses a large gold reserve, since the output of gold has been greatly increased in recent years. But the reserve has not been used as cover for the rouble; it has rather been accumulated as a sort of a war treasure. Both its size and the use to which it has been put are, however, a closely guarded secret.

TABLE NO. XX

Bank for International Settlements

(Million Swis gold francs of 0.29 gramme)

	Oct. 31, 1941	Aug. 31, 1942	Sept. 30, 1942	Oct. 31, 1942
Assets				
Gold in bars ..	31·6	56·6	61·9	62·9
Cash	38·0	36·2	39·7	34·8
Sight Funds ..	15·8	15·6	15·6	15·7
Commercial Bills	110·7	112·2	111·1	112·2
Treasury Bills	31·8	30·4	30·4	30·3
Time Funds at Interest	21·0	20·9	20·9	21·0
Sundry Bills and Investments	222·5	200·5	200·4	200·9
Liabilities				
Deposits—				
Annuity	152·7	152·7	152·7	152·7
German	76·3	76·3	76·3	76·3
Central Banks	20·7	15·4	15·5	15·5
Other "	2·8	3·4	5·7	4·4
Gold	24·2	29·1	43·8	33·7

BRITISH PARTICIPATION IN THE B.I.S.

Parliament and the financial press have been resounding with a campaign whose object is to sever British Participation in the Bank for International Settlements. The immediate occasion for the attack was the publication of the B.I.S. report for 1941-42, a document which is not yet distributed in this country, but which appears to have received some favourable comment in the German press. To some, this fact alone is sufficient condemnation, both of the report and of the institution under whose authority it was published The basis of attack has, however, broadened well beyond the mere effect of Axis approval of the latest report. It has been suggested that, since the Axis now controls a majority of the capital of the B.I.S., that institu-

tion can only be regarded as an agent of the enemy powers. Further, it has been suggested that any contact with the enemy, however indirect, should be avoided, and that the best way of shunning the contagion in this instance is to sever the British link with the B.I.S. Sir Kingsley Wood, who answered several questions on this subject in the House of Commons, had little difficulty in disposing of the critics. He pointed out that the President of the B.I.S. is an American and that its conduct, which is guided by a strict policy of neutrality, is entirely in his hands. The latest report was prepared under his authority and without any collaboration with London or any of the belligerent powers. No transactions have taken place since the war between the Bank of England and enemy central banks forming part of the B.I.S. The only British subjects on the staff at Basle are in subordinate positions and have nothing to do with the management or policy of the bank. On the other hand, this country has substantial interests and rights in the B.I.S. under international trust agreements between the participating Governments, and it would not be in the national interest to sever the British connection with the bank and thus endanger these rights Quite apart from these statements of fact, there is the promise which the B I.S. holds of providing after the war the germ of an international organisation which may yet fulfil the wider dreams of those who founded the bank. No danger is being incurred and no damage done by maintaining this structure alive, however little it may be called upon to accomplish for the rest of the war.

Country	Position in July 1939			Position in December 1939			Value of Currency as Percentage of its Gold Parity in 1929		
	Date since which £ rate fixed	Rate of Exchange £	Rate of Exchange U.S. $	Date since which $ rate fixed	Rate of Exchange £	Rate of Exchange U.S. $	July 1939	December 1939	Percentage change from July–Dec. 1939
Union of South Africa	1–1933	1·01	4·65§	..	1·01	4·01§	56·4	48·6	—14
*	1–1934	15·00	3·20	22– 9–39	13·50	3·36	43·5	41·4	— 5
Argentine †	11–1938	17·00	3·63	22– 9–39	15·00	3·73	38·3	37·3	— 3
‡	..	20·25	4·32	..	17·27	4·39	32·2	31·7	— 2
Australia	1–1932	1·25	3·72§	..	1·25	3·22	45·2	39·1	—14
Bolivia	6–1938	141·00	30·37	15–11–39	137·60	36·20	5·3	4·5	—15
Canada	..	4·60	1·00	..	4·45	1·10	59·0	53·0	— 9
Denmark	1–1933	22·40	4·79	8– 9–39	20·34	5·18	46·0	42·5	— 8
Egypt	9–1931	0·98	4·80§	..	0·98	4·13§	56·8	48·9	—14
Estonia	9–1933	18·23	3·90	7– 9–39	16·96	4·20	56·5	52·5	— 7
Finland	3–1936	117·00	48·60	28– 8–39	214·10	49·35	48·3	47·5	— 2
France	5–1938‖	176·72	37·75	..	177·00	43·80	39·9	34·4	—14
Greece	9–1936	548·00	117·60	..	548·00	140·95	38·7	32·3	—16
India	9–1931	13·33	2·85	..	13·33	3·31	56·8	48·9	—14
Iraq	9–1931	1·00	4·68§	..	1·00	4·03§	56·8	48·9	—14
Ireland	9–1931	1·00	4·68§	..	1·00	4·03§	56·8	48·9	—14
Japan	1–1933	17·14	3·67	25–10–39	16·68	4·27	32·3	27·8	—14
Latvia	9–1936	25·22	5·39	12– 9–39	21·33	5·40	46·8	56·7	± 0
Newzealand	8–1934	1·24	3·77§	..	1·24	3·24	45·7	39·4	—14
Norway	6–1933	19·90	4·27	29– 8–39	17·35	4·40	51·5	50·1	— 3
Palestine	9–1931	1·00	4·68§	..	1·00	4·03§	56·8	48·9	—14
Portugal	9–1931	110·00	23·56	15– 9–39	1·08	27·55	56·7	48·5	—14
Sweden	7–1933	19·40	4·15	28– 8–39	16·90	4·20	53·1	52·5	— 1
Thailand	8–1932	10·91	2·33	..	10·91	2·71	57·3	49·3	—14
United Kingdom	..	..	4·68§	5– 9–39	..	4·03§	56·8	48·9	—14
Yugoslavia	7–1936	258·00	54·90	29– 8–39	216·15	55·00	61·1	61·0	± 0

* Official buying rate.
† Official selling rate (since September 22nd 1939 only for goods essential for "Popular consumption and industrial activity". For other goods and services another official selling rate of 4.23 pesos per dollar or 17 pesos per £ was fixed on September 22nd 1939).
‡ Free market rate.
§ U.S. dollar per unit of national currency.
¶ Limit fixed at 177 francs per £.

TABLE XXII

Dates of Principal Measures affecting Exchange Rates

Country	Official Suspension of Gold Standard	Exchange Control		Depreciation or Devaluation in Relation to Gold	Introduction of a New Gold Parity
		Introduction	Suppresion		
Albania	..	..	..	..	..
Argentine	17–12–29	13–10–31	..	11–29	..
Australia	17–12–29	..	..	3–30	..
Austria	5– 4–33	9–10–31	..	9–31—4–34	30– 4–34*
Belgium	30– 3–35	18– 3–35	26–4–35	3–35	31– 3–36
Bolivia	25– 9–31	3–10–31	..	3–30	..
Brazil	..	18– 5–31	..	12–29	..
Bulgaria	..	1918	..	..	..
Canada	19–10–31	..	..	9–31	..
Chile	20– 4–32	30– 7–31	..	4–32	..
China	..	9– 9–34	..	..	..
Colombia	25– 9–31	25– 9–31	..	1–32	..
Costa Rica	..	16– 1–32	..	1–32	..
Cuba	21–11–33	2– 6–34	13–7–34	4–33	22– 5–34*
Czechoslovakia	..	2–10–31	..	2–34—10–36	17–2–34—9–10–36*
Danzig	..	12– 6–35	..	5–35	2– 5–35
Denmark	29– 9–31	18–11–31	..	9–31	..
Ecuador	8– 2–32	2–5–32—30–7–36	7–10–35	6–32	19–12–35*
Egypt	21– 9–31	..	..	9–31	..
Estonia	28– 6–33	18–11–31	..	6–33	..
Finland	12–10–31	..	..	10–31	..
France	..	..	..	9–36	1–10–36*
Germany	..	13– 7–31	..	..	..
Greece	26– 4–32	28– 9–31	..	4–32	..
Guatemala	..	..	..	4–33	..
Honduras	..	27– 3–34	..	4–33	..
Hong-Kong	..	9–11–35	..	..	..
Hungary	..	17– 7–31	..	..	..

India	21– 9–31	..	..	9–31	..
Iran	..	25–2–30—1–3–36	30–5–33	..	..
Irish-Free State	26– 9–31	..	..	9–31	..
Italy	..	26– 5–34	..	3–34—10–36	8–10–36*
Japan	13–12–31	1– 7–32	..	12–31	..
Latvia	28– 9–36	8–10–31	..	9–36	..
Lithuania	..	1–10–35	..	..	..
Luxemburg	..	18– 3–35	26–4–35	3–35	1– 4–35
Malaya (British)	21– 9–31	..	..	9–31	..
Mexico	25– 7–31	..	..	8–31	..
Netherlands	27– 9–36	..	..	9–36	..
Netherlands Indies	27– 9–36	..	..	9–36	..
New Zealand	21– 9–31	..	..	4–30	..
Nicaragua	13–11–31	13–11–31	..	1–32	..
Norway	28– 9–31	..	..	9–31	..
Palestine	21– 9–31	..	..	9–31	..
Panama	..	..	..	4–33	..
Paraguay	..	8–32	..	11–29	..
Peru	14– 5–32	..	..	5–32	..
Philippines	..	..	..	4–33	..
Poland	..	26– 4–36	..	..	..
Portugal	31–12–31	21–10–22	..	10–31	..
Roumania	..	18– 5–32	..	7–35	..
Salvador, El.	9–10–31	8–33	10–33	10–31	..
Siam	11– 5–32	..	..	6–32	..
Spain	..	18– 5–31	..	1920	..
Sweden	29– 9–31	..	..	9–31	..
Switzerland	..	..	..	9–36	27– 9–36*
Turkey	..	26– 2–30	..	1915	..
Union of South Africa	28–12–32	..	..	1–33	..
United Kingdom	21– 9–31	..	..	9–31	..
United States of America	20– 4–33	6– 3–33	12–11–34	4–33	31– 1–34*
Uruguay	12–29	7– 9–31	..	4–29	..
U.S.S.R.	..	..	..	4–36	1– 4–36*
Venezuela	..	12–12–36	..	9–30	..
Yugoslavia	..	7–10–31	..	7–32	..

* Provisional parity.

TABLE XXIII
Value of Currencies in U.S. Cents

Country		Currency Unit	1938	1939		1940		1941				1942	1943	1944
			Dec.	June	Dec.	June	Dec.	March	June	Sept.	Dec	March	Dec.	Nov.
Albania ..	.	*Franc*	32·70	32·80	31·57	..	..	..	..	..	.	..	..	..
Argentine ..	A	*Peso*	31·13	31·22	29·77	29·77	29·77	29·77	29·77	29·77	29·77	29·77	29·77	29·77
	B		22·73	23·15	22·78	22·03	23·58	23·09	23·70	23·64	..23·78	23·67	24·63	24·90*a*
Australia ..	A	*A. £*	372·06	373·12	313·13	322·80	322·80	322·80	322·80	322·80	322·80	322·80	322·80	322·80
	B					287·04	321·50	321·30	321·25	321·33	321·50	321·50	..	11 42
Belgium ..	..	*Belga*	16·84	17·01	16·58	..	..	..	..	.	..	..	2·33	2·36
Bolivia§ ..	A	*Boliviano*	3·29	3·30	2·76	2·49	2·51	2·50	2·40	2·15	2·15	2·15	6 06	6·06
Brazil ..	A	*Milreis*	..	6·06	6·06	6·05	6·06	6·06	6·06	6·06	6·06	6·06	5·13	5·18
	B		5·86	5·17	5·03	5·03	5·02	5·06	5·06	5·06	5·13	5·14	..	..
British Malaya	..	*Singapore $*	54·30	54·51	46·10	47·11	47·10	47·11	47·14	47·16	47·16	46·75*	..	..
Bulgaria§ ..	..	*Lev*	1·20	1·21	1·20	1·20	1·22	1·22	1·22	..	..	..	90·91	90·91
Canada ..	A	*C. $*	99·06	99·77	87·62	90·91	90·91	90·91	90·91	90·91	90·91	90·91	89·98	..
	B					80·07	86·56	84·98	88·18	89·13	87·39	87·59	5·16	5·16
Chile§ ..	A	*Peso*	5·18	5·17	5·17	5·17	5·17	5·17	5·16	5·16	5·16	5·16	4·00	4·00
	C		4·00	4·00	4·00	4·00	4·00	4·00	4·00	4·00	4·00	4·00	3·09	3·15
	B		3·12	2·98	3·22	2·98	2·89	3·16	3·39	..	3·16	3·22	..	..
China ..	..	*National $*	16·11	13·43	7·49	5·76	5·69	5·36	5·34	..	..	..	57·27	57·28
Colombia ..	A	*Peso*	57·00	57·17*	57·02	57·22	57·13	56·99	56·98	56·98	56·99	57·00	17·79	17·79*a*
Costa Rica§ ..	A	*Colon*	17·79	17·79	17·79	17·79	17·79	17·79	17·79	17·19	17·79	17·79	100·00	100·00
Cuba ..	..	*Peso*	99·93	99·95	88·00	90·00	91·00	94·00	99·00	100·00	99·98	100·00	..	.
Czecho-Slovakia	..	*Koruna*	3·42	..	..	..	..	..	..	..	..	..	..	..
Danzig ..	..	*Gulden*	18·85	18·78	..	..	..	..	..	..	..	..	..	..
Denmark ..	..	*Krone*	20·84	20·90	19·30	..	..	..	..	..	..	..	A 7·09	A 7·09
Ecuador§ ..	..	*Sucre*	B 6·89	B 6·52	B 6·61	A 5·56	A 6·67	A 6·67	A 6·67	A 6·67	A 6·67	A 6·67	413·80	413·80
Egypt ..	..	*E. £*	479·01	480·24	403·09	369·40	413·85	413·53	413·50	413·61	413·80	413·80	..	..
Estonia ..	..	*Kroon*	25·91	25·97	23·98	23·98	..	..	..	..	..	..	..	..
Finland ..	..	*Markka*	2·06	2·06	1·81	1·98	1·95	2·01	2·01	..	..	..	..	2·00
													..	(10·00)
France ..	..	*Franc*	2·63	2·65	2·23	2·01	..	..	..	..	..	..	..	0·67

Germany ..	..	*Reichsmark*	40·08	40·10	40·10	39·97	39·98	39·96	39·97	..	..	..	49·02	49·02*b*
Greece ..	..	*Drachma*	0·86	0·86	0·72	0·65	..	..	..	..	..	..	..	..
Hong-Kong ..	..	*H.K. $*	29·17	28·92	24·48	22·39	23·59	24·42	24·37	25·10	25·04†	..	..	..
Hungary§ ..	..	*Pengo*	29·15	29·12	26·32	28·94	28·94	28·94	28·94	..	..	..	30·12	30·12
India ..	..	*Rupee*	34·86	34·92	30·03	30·11	30·18	30·14	30·13	30·14	30·13	30·12	3·08	3·08
Iran	..	*Rial*	5·80	5·82	5·20	5·84	5·84	5·84	5·84	5·84	2·86	2·86	403·50	403·50
													(1·00)	(1·00)
Italy	..	*Lira*	5·26	5·26	5·05	5·04	5·04	5·05	5·26	..	..	..	..	..
Japsn ..	..	*Yen*	27·21	27·28	23·44	23·43	23·44	23·44	23·44	..	..	..	..	..
Latvia ..	..	*Lat*	18·52	18·55	18·52	18·52	..	..	..	..	.	..	..	..
Lithuania ..	..	*Litas*	16·79	16·79	16·69	16·69	..	..	..	..	..	..	..	..
Luxemburg ..	..	*Franc*	4·21	4·25	4·14	..	..	..	..	..	..	..	20·58	20·58
Mexico ..	..	*Pesp*	19·93	19·75	18·19	18·37	20·45	20·53	20·53	20·54	20·56	20·57	.	37·74
Netherlands ..	..	*Gulden*	54·36	53·17	53·11	..	..	..	..	..	..	..	..	..
Netherlands Indies	..	*Gulden*	54·52	53·36	53·51	53·38	..	..	..	..	..	..	324·42	324·42
New Zealand ..	..	*N.Z. £*	373·72	374·60	314·35	288·19	322·75	322·55	322·51	322·60	322·80	322·80	20·00	20·00
Norway ..	..	*Krone*	23·46	23·52	22·70	..	..	..	..	..	..	..	18·97	17·36*b*
Peru	..	*Sol*	20·56	17·69	17·52	15·77	16·00	15·83	15·57	15·63	15·63	15·63	..	..
Philippines ..	..	*Peso*	49·84	49·83	49·87	49·83	49·81	49·81	49·98	49·88	..	..	32·26	32·36
Poland ..	..	*Zfoty*	18·86	18·81	..	..	..	..	..	..	..	..	15·38	15·38
Portugal ..	..	*Escudo*	4·24	4·25	3·60	3·60	3·99	4·00	4·00	..	..	..	..	..
Roumania§ ..	..	*Leu*	0·73	0·70	0·71	0·46	0·46	0·46	0·51	..	..	..	.	..
Salvador§ ..	..	*Colon*	40·00	40·00	40·00	40·00	40·00	40·00	40·00	40·00	40·00	40·00	..	..
Spain ..	..	*Peseta*	11·05	11·02	9·95	9·13	9·13	9·13	9·13	..	..	..	..	..
Sweden ..	..	*Krona*	24·05	24·11	23·80	23·80	23·82	23·82	23·84	..	..	..	30·00	40·00
Switzerland ..	..	*Franc*	22·61	22·55	22·42	22·46	23·20	23·21	23·21	..	..	..	..	..
Thailand ..	..	*Baht*	42·81	42·92	36·03	33·02	36·99	36·96	36·96	36·97	36·98‡	..	..	..
Turkey§ ..	..	*T. £*	79·56	78·98	76·74	67·17	75·75	76·25	76·48	76·46	76·37	76·42	..	..
Union of South Africa	..	*S.A. £*	462·32	463·32	397·41	398·00	398·00	398·00	398·00	398·00	398·00	398·00	..	..
United Kingdom	A	*£*	467·03	468·24	393·01	403·50	403·50	403·50	403·50	403·50	403·50	403·50	..	..
	B					360·16	403·50	403·19	403·16	403·27	403·50	403·48	398·00	398·00
Uruguay ..	A	*Peso*	61·47	61·61	65·83	65·83	65·83	65·83	65·83	65·83	65·83	65·83	403·50	403·50
	B		35·71	35·62	36·46	37·71	39·48	39·57	42·71	43·84	52·78	52·72	65·83	65·83
Venezuela ..	..	*Bolivar*	31·40	31·50	31·25	28·92	23·66	25·86	27·47	27·53	26·89‖	..	52·86	54·19
Yugoslavia ..	..	*Dinar*	2·28	2·27	2·27	2·24	2·24	..	.	..	..	..	29·85	29·85

A = Official rate; B = Free rate; C = Export rate. *a* = September; *b* = August.
* Average: February 1st-11th; † December 1st-21st; ‡ November; ¶ January 1942.
§ According to domestic quotations. In the case of Bulgaria and Roumania, domestic quotations have been taken as basis since June 1940, in the case of Chile since June 1941.
Further information on exchange rates up to September 1941 inclusive is given in the *Statistical Year-Book of the League of Nations*, 1940-41, Table 96.

TABLE XXIV

Devaluation of Currencies and Revaluation of Gold Reservas

Sl. No.	Country	Date of Authorisation of Revaluation of Gold Reserve	Currency Unit	Rates of Valuation—Grammes of Fine Gold per Unit of Currency		Total Revaluation Profit	Repayment of Government Debt		Banking Reorganisation		Establishment of Funds		Extraordinary Expenditure	
				Old Rate	Rate of Revaluation		Central Bank	Other	Subscription of Capital and Increase of Reserve Funds of Central Bank	Liquidation of Frozen Assets of the Commercial Banks	Exchange Stabilisation Funds	Fund to support Government Bonds	Public Works	Other Purpos
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1	Argentine ..	28– 3–35	*Peso*	1·45161	0·29289	700	..	290	10	390	..	..	..	10
2	Belgium ..	30– 3–35	*Fran..*	0·04184	0·03013	4,352	500	5·3	..	..	1,125	1,000	2,852	..
3	Canada ..	10– 7–35	*Dollar*	1·50463	0·88867	74	50	..	..	.	63	..	..	20·8
4	France ..	21– 8–37	*Fran..*	0·04410	0·03870	6,800	..	..	..	.	..	6,800	..	..
		12– 9–38	,,	0·03870	0·02475	31,456	31,456	..	..	.	..	..	..	..
5	Italy ..	5–10–36	*Lira*	0·07919	0·04677	*	..	..	..	.	..	..	..	..
6	Japan ..	25– 9–37	*Yen*	0·75000	0·29000	774	..	..	..	..	461	..	..	313
7	U.S.A. ..	30– 1–34	*Dollar*	1·50463	0·88867	2,812	..	..	..	..	2,000	..	..	812
8	U.K. ..	28– 2–39	£	7·32238	4·19138	94·4	..	..	..	..	..	..	..	94·4

* Unknown but whole ceded to State.
† Deposited with the Central Bank.

TABLE XXV

Index Numbers of Prices in Twelve Countries

(Mainly based upon the Monthly Bulletin of the League of Nations)†

	United Kingdom	Australia	Canada	N. Zealand	S. Africa	Argentina	Germany	Japan	Portugal	Sweden	Switzerland	U.S.A.
I. Wholesale, % of Jan.–June, 1939												(a)
1939 2nd half	112	99	105	104	103	110	100	107	107	110	111	103
1940 1st " . ..	134	108	113	110	110	120	102	118	124	128	125	103
1940 2nd "	147	112	114	118	114	120	104	116	138	139	145	103
1941 1st "	155	114	119	123	119	126	105	121	151	154	164	109
1941 2nd "	159	120	127	128	128	155	105	127	155	161	182	120
1942 1st "	163	127	130	131	134	177	106	133	168	169	195	128
1942 2nd "	165	136	131	139	144	188	108	135	186	177	201	130
1943 1st "	167	136	134	142	148	195	109	139	214	180	205	135
1943—July	169	139	136	145	150	199	110	142	222	180	205	135
Aug.	167	138	137	145	152	199	110	143	227	179	205	135
Sept.	167	138	138	144	152	197	109	144	226	179	207	135
Oct.	167	138	139	145	153	197	109	145	228	179	208	135
Nov.	167	138	140	148	154	197	109	146	228	179	208	135
Dec.	168	138	140	149	155	198	109	147	230	179	208	135
1944—Jan.	169	138	140	149	156	200	109	149	232	179	208	135
Feb.	170	138	140	149	156	201	109	150	242	179	209	136
Mar.	170	139	140	148	156	201	110	150	244	179	210	136
Apr.	171	138	140	148	156	203	110		246	179	211	136
May	172	138	140	149	156	205	110		256	180	211	136
June	172	139	140	149	156	207				110	211	137
July	173	140	140	149	256	207	111				212	136
Aug.	173	140	140	148	256							136
Sept.	173		140	148	356							136
Oct.	173		140									
Nov.	173											
Dec.	173											

TABLE XXV (*Contd.*)

II. Retail, Cost of Living, % of Jan.–June, 1939

	United Kingdom	Australia	Canada	N. Zealand	S. Africa	Argentina	Germany	Japan	Portugal	Sweden	Switzerland	U.S.A.
				(*e*)				(*c*)	(*d*)			(*b*)
1939 2nd half	108	100	101		99	101	100	107		103	102	100
1940 1st ,, ...	117	102	104		102	105	102	119		113	107	101
1940 2nd ,, ...	124	106	106		104	103	104	122	(*f*)	120	114	101
1941 1st ,, ...	129	109	109		107	103	105	121	118	132	122	103
1941 2nd ,, ...	130	111	115		109	109	106	122	126	136	132	108
1942 1st ,, ...	130	117	115	(*f*)	115	112	108	124	133	143	139	114
1942 2nd ,, ...	130	121	117		119	112	108	126	142	149	144	118
1943 1st ,, ...	129	123	117	101	123	117	110	131	149	150	149	122
1943—July	129		118		125	107	112	133	153	149	150	122
Aug.	129	123	119		125	108	112	134	160	149	149	122
Sept.	129		119	100	126	109	109	135	157	149	150	122
Oct.	129		119		126	109	109	136	157	149	150	123
Nov.	129	122	119		126	111	110	137	158	149	150	123
Dec.	129		118	100	126	110	110	137	161	150	150	123
1944—Jan.	130		118		126	110	111	139	165	150	151	123
Feb.	130	122	118		127	109	111	139	165	150	151	123
Mar.	130		118	101	128	111	111	141	167	149	151	123
Apr.	130		118		129	109	112	141	167	149	152	123
May	130	122	118		129	109	112	145	175	149	152	124
June	130		118	100	130	110	113	146	173	149	153	124
July	131		118		129	112	116		171	149	153	125
Aug.	131		118		127					149	152	125
Sept.	130		118		128							125
Oct.	130											
Nov.	130											
Dec, ...	131											

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III. Retail, Food only, % of Jan.–June, 1939

												(a)
1939 2nd half	110	99	104		98	101	101	111 (g)		104	104	101
1940 1st „	119	100	106		101	105	103	128		113	109	102
1940 2nd „	125	102	109		103	101	105	131	(f)	123	117	102
1941 1st „	125	102	113		107	101	105	130	118	137	128	106
1941 2nd „	121	102	125		117	113	105	131	128	143	142	117
1942 1st „	118	109	127		119	117	108	134	136	152	151	126
1942 2nd „	119	113	132		123	117	108	134	145	158	157	136
1943 1st „	122	112	132		130	121	109	143	150	159	162	146
1943—July	123	114	135		132	113	114	149	151	158	163	147
Aug.	122	110	136		133	114	114	149	158	157	162	145
Sept.	124	110	135		134	116	108	148	154	157	163	145
Oct.	124	110	135		133	116	108	157	155	157	163	146
Nov.	124	109	135		132	120	109	151	156	156	164	145
Dec.	124	109	134		134	119	109		160	156	164	145
1944—Jan.	124	110	133		135	119	110		164	156	164	144
Feb.	124	110	133		136	116	110		164	156	165	142
Mar.	124	110	134		138	120	111		167	156	165	142
Apr.	124	110	134		140	116	112		166	156	166	142
May	124	110	133		140	117	112		175	156	166	143
June	124	111	134		140	117	114		172	156	167	144
July	125	112	134				119		170	157	167	145
Aug.	124	111	134							157	.66	145
Sept	124		133									145
Oct	124											
Nov.	124											
Dec	:24											

(a) B.L.S. Index. (b) N.I.C.B. Index. (c) Tokyo Index, excl. rent. (d) Excl. rent and clothes. (e) New Index per cent. of December, 1942. (f) No comparable earlier figures. (g) Official index.

† Figures are averages for month, or mid-month or end of month figures.

TABLE XXVI

Indian Wholesale Prices

(Base : Week ended Aug. 19, 1939 = 100)

	Dec. 1939	June 1940	July 1941	March 1942	June 1943	March 1944
Food and Tobacco	127·5	106·3	127·0	130·5	303·3	283·8
Other Agricultural commodities—						
Tobacco	127·5	106·3	127·0	130·5	303·3	283·8
Raw Materials	125·5	117·0	146·2	162·4	178·4	196·6
All Primary Commotidies ..	135·9	112·4	136·7	139·4	237·5	232·0
Manufactured Goods	144·5	120·0	157·3	162·5	257·5	252·6
General Index	137·8	114·1	140·9	144·2	241·7	233·3

Index Numbers of Wholesale Prices: 1944-45

	All India (19th Aug. 1939=100)	Calcutta (July 1914=100)	Bombay (July 1914=100)	Cawnpore (1913=100)	All India (Food articles) (Aug. 1939=100)
April	234	297	264	289	230·3
May	237	292	265	274	228·0
June	240	300	267	280	238·5
July	245	299	260	321	237·4
August	245	298	258	316	235·8
September ..	243	301	.44	308	230·4
October	243	297	240	311	234·6
November ..	246	299	..	292	235·5
December ..	249	301	..	..	234·7

*Food Index (Wholesale Prices)**

(Base : Last week of August 1939 = 100)

		Increase or decrease
Average for January 1945	233·6	+2·2
Average for February 1945	231·4	−2·2
Average for March 1945	234·9	+3·5
Average for April 1945	233·7	−1·2
Average for May 1945	234·2	+0·5
2nd June 1945	234·2	+1·0
9th June 1945	234·1	−0·1
16th June 1945	234·6	+0·5
23rd June 1945	234·4	−0·2
30th June 1945	233·3	−1·1
7th July 1945	234·2	+0·9

* Issued by the Office of the Economic Adviser to the Government of India.

APPENDIX D

Post-war planning is still in the making. Certain points have been discussed in Chapters XVIII to XXI, and the following extracts should help the reader in getting a bird's-eye-view of the main currents.

THE BEVERIDGE PLAN

(SUMMARY)

The scheme covers all citizens, without upper income-limit. The population is divided into six classes—employees, others gainfully occupied; housewives; others of working age not gainfully occupied; those below working age; and those retired above working age. The underlying principles are flat rates of benefit and contribution, unification of administrative responsibility; adequacy of benefit; comprehensiveness and "classification" (that is, the adjustment of insurance to differing circumstances).

In Part II, 23 changes in the existing system are proposed, with the object of unifying the various schemes and extending their scope. The principal changes are as follows:

1. *Unification of social insurance in respect of contributions.*—Each insured person is to obtain all benefits by a single weekly contribution on a single document. This simplification of procedure would save about £400,000 a year in administrative costs.

2. *Unification of administration under a Ministry of Social Security.*—This would result in improved efficiency, the removal of many gaps and anomalies and increased convenience to the insured person. The Ministry would be decentralised, with local security offices, within reach of all "consumers".

3. *Supersession of the present system of Approved Societies.*—In contrast to the 1926 Royal Commission on National Health Insurance, Sir William Beveridge finds that Approved Society administration, under which unequal benefits are given for equal compulsory contributions, should be abolished. The mechanism of Friendly Societies and Trade Union Societies should, however, be retained for voluntary insurance.

4. *Supersession of the present scheme of Workmen's Compensation.*—Provision for industrial accident and disease is to be included within the unified social insurance scheme. After thirteen weeks' disability payment at the flat rate, industrial pensions will be granted at the rate of two-thirds of previous earnings, subject to a maximum of £3 a week. The cost will be met partly by the general contributions to the insurance fund and partly by a special levy on industries scheduled as dangerous.

5. *Separation of medical treatment from administration of cash benefits.*

6. *Recognition of housewives as a distinct insurance class.*—Man and wife are treated as a "team". On marriage, a woman

acquires a "housewife's policy", with rights to marriage grants, maternity, widowhood and separation provision and benefit during her husband's unemployment or disability, if not herself gainfully occupied. Gainfully occupied housewives will receive two-thirds of the normal rate for unemployment and disability benefit, but maternity benefit at 50 per cent above that rate.

Change 8 introduces *training benefit* to facilitate change to new occupations by those who have lost their former livelihood. Changes 9, 10 and 11 deal with the *assimulation of rates and conditions* for the various benefits and of contribution conditions. Changes 12 and 13 make *unemployment and disability benefit at full rate indefinite in duration*, subject to the requirement of attendance at a training centre after a limited period of unemployment (an average of six months is suggested) on the one hand and the imposition of special behaviour conditions on the other. The means test is abolished, but these provisions are designed as a safeguard against abuse of benefits by non-co-operation or malingering.

Change 14 makes *pensions, other than industrial, conditional on retirement from work* for persons in Class I and rising in value with each year of continued contribution after the minimum age of retirement (65 for men and 60 for women). Contributory pensions will be introduced gradually over a transition period of twenty years. Assistance pensions subject to a uniform means tests will be available for all persons requiring them during that period. Change 15 proposes the *amalgamation of the separate unemployment insurance schemes in agriculture, banking and insurance in the general scheme.* Change 17 replaces unconditional *widows' pensions* by a benefit equivalent to maternity benefit for thirteen weeks, for all widows, a guardian benefit for widows with dependent children and a training benefit when required. Change 18 includes a *universal funeral grant* (£20 for an adult) in compulsory insurance.

Changes 19, 20 and 21 define the responsibilities of the *Ministry of Social Security.* It is to take over the functions of local authorities in respect of public assistance, other than institutional relief, and of the Customs and Excise Department for non-contributory old-age pensions; the work of the Assistance Board; the maintenance of the blind; probably the employment services of the Ministry of Labour, in addition to unemployment insurance and the work of other departments in connection with the administration of cash benefits. Change 22 replaces the Unemployment Insurance Statutory Committee by a *Social Insurance Statutory Committee*, with similar powers but covering social insurance as a whole.

Change 23 (which is bracketed as not essential) proposes the conversion of the business of *Industrial Assurance* into a public service.

For the limited number of cases of need not covered by social insurance, *national assistance*, subject to a uniform means test, will be available.

In Part III, the Report discusses the establishment of a *National Minimum Subsistence Standard,* with special reference to the problem of rent, and considers the implications on the social security plan of current population trends.

Financing the Plan

Part IV deals with *the financial aspect* of the plan. The estimated cost of the whole scheme, which is shared by insured persons, employers and the State, is £697 millions in 1945 (at 1945 prices, assuming a rise of 25 per cent. from the 1938 level), rising to £858 millions in 1965, the increase being mainly due to the rising cost of retirement pensions The details of the various items are shown in the following table:—

TABLE I

Estimated Social Security Expenditure, 1945 *and* 1965
(£ million)

	1945	1965
Social Insurance—		
Unemployment benefit, including training benefit	110	107
Disability benefit, other than industrial	57	71
Industrial disability benefit, pensions and grant ..	15	15
Retirement pensions	126	300
Widows and Guardian benefit	29	21
Maternity grant and benefit	7	6
Marriage grant	1	3
Funeral grant	4	12
Cost of administration	18	18
Total Social Insurance ..	367	553
National Assistance—		
Assistance pensions	39	25
Other assistance	5	5
Cost of administration	3	2
Children's Allowances	110	100
Cost of administration	3	3
Health and Rehabilitation services	170	170
Total ..	697	858

The estimated cost of social security to the Exchequer, insured persons and employers at various dates is as follows:—

TABLE II
(£ million)

	1945			1965
	1938–39 (1)	Commitments under Existing Arrangements (2)	Proposed (3)	Proposed (4)
National Exchequer (and Local Rates for hospitals and public assistance)	212	265	351	519
Insured Persons	55	69	194	192
Employers	66	83	137	132
Other (mainly interest) ..	9	15	15	15
Total ..	342	432	697	858

The weekly rates of contribution from insured persons and employers will be as follows:—

TABLE III

	Male			Female		
	Insured Person	Em-ployer	Joint	Insured Person	Em-ployer	Joint
Class I—						
Age 21 and over ..	4/3	3/3	7/6	3/6	2/6	6/-
18–20	3/6	2/9	6/3	3/-	2/-	5/-
16–17	2/6	2/6	5/-	2/-	2/-	4/-
Class II—						
Age 21 and over ..	4/3	..	..	3/9	..	..
18–20	3/6	..	..	3/-	..	..
16–17	2/-	..	..	2/-	..	..
Class IV—						
Age 21 and over ..	3/9	..	..	3/-	..	..
18–20	3/-	..	..	2/6	..	..
16–17	1/6	..	..	1/6	..	..

The benefits proposed and the conditions, as compared with present schemes, are summarised in a further table.

TABLE IV. *Security Provision for Man, Wife and Two Children* (*Present Contributory Classes*)

	Present		Proposed in Plan for Social Security	
	Amount	Period and Conditions	Amount	Period and Conditions
Unemployment	38/- per week	26 weeks (followed by assistance on means test)	56/- per week	Unlimited in time without means test at any time. Subject to attendance a training centre if unemployment is prolonged
Disability other than industrial	18/- per week	26 weeks, followed by 10/6 per week in disablement. Additional benefit in some cases	56/- per week	Unlimited in time without means test at any time
Old Age	20/- per week	Supplemented by Assistance Board according to needs	40/- per week	On retirement, 2/- a week increase for each year of postponement of retirement. (Full rate only after transition period of 20 years. Assistance pensions on means test meanwhile)
Widowhood	18/- per week	..	40/- per week	Reduced by part of any earnings. 52/- per week for first 13 weeks without reduction
Maternity	£2	..	£4	..
Maternity if wife gainfully occupied	£2 additional	..	36/- per week for 13 weeks additional	..
Funeral	Nil	..	£20	With smaller sums for children
Industrial Disability ..	Half earnings up to maximum of 35/- per week. (Plus 8/- for the two children)	Subject to compounding for lump-sums	56 per week for 13 weeks followed by pension of two-thirds earnings up to maximum of 76/- per week, but not less than 56/- per week. No compounding for total disability	..
Medical Treatment ..	General Practitioner for man, with additional treatment benefits in some cases	..	Comprehensive medical treatment including hospital, dental and ophthalmic, nursing and convalescent homes for whole family. Post-medical rehabilitation	

Part V of the Report is concerned with the theoretical basis and technical details of the plan.

Part VI sets out the three assumptions on which the success of the plan must depend. First, non-contributory *children's allowances* at the rate of 8*s* per week per child of school age, excluding the first when the parent is earning. Secondly, the establishment of a *national preventive and curative health service* (on the lines proposed by the Medical Planning Commission of the B.M.A.). Third, the *maintenance of employment*.

Finally, the conclusion is drawn that *abolition of want is a practical post-war aim.* Broad decisions of principle can and should be taken immediately.

A series of appendices in the Report (Cmd. 6404, two volumes, price 2*s*. each) include a memorandum by the Government Actuary on the financial proposals, a factual and statistical review of the existing schemes, a list of organisations submitting evidence together with selected memoranda, and a note on insurance practices in other countries.

THE INTERNATIONAL MONETARY FUND

The principles set forth below are designed to constitute the basis of an International Monetary Fund as envisaged by the experts of the United and Associated Nations:—

I. Purposes and Policies of the Fund

The Fund will be guided in all decisions by the purposes and policies set forth below—

(1) To promote international monetary co-operation through a permanent institution which provides machinery for consultation on international monetary problems.

(2) To facilitate the expansion and balanced growth of international trade and to contribute in this way to the maintenance of a high level of employment and of real income, which must be a primary object of economic policy.

(3) To give confidence to member countries by making the resources of the Fund available to them under adequate safeguards thus giving members the time to correct maladjustments in their balance of payments without resorting to measures destructive to national or international prosperity.

(4) To promote exchange stability, to maintain orderly exchange arrangements among member countries and to avoid competitive exchange depreciation.

(5) To assist the establishment of multilateral payments facilities on current transactions among member countries and the elimination of foreign exchange restrictions which hamper the growth of world trade.

(6) To shorten the periods and lessen the degree of disequilibrium in the international balance of payments of member countries.

II. Subscription to the Fund

(1) Member countries shall subscribe in gold and in their local funds amounts (quotas) to be agreed, which will amount altogether to about \$3 billion if all the United Nations and the Associated Nations subscribe to the Fund (corresponding to about \$10 billion for the world as a whole).

(2) Quotas may be revised from time to time but changes shall require four-fifths vote and no member's quota shall be changed without its assent.

(3) The obligatory gold subscription of a member country shall be fixed at 25 per cent. of its subscription (quota) or 10 per cent. of its holdings of gold and gold-convertible exchange, whichever is the smaller.

III. Transactions with the Fund

(1) Member countries shall deal with the Fund only through their Treasury, Central Bank, Stabilization Fund, or other fiscal agencies. The Fund's account in a member's currency shall be kept at the Central Bank of the member country.

(2) A member shall be entitled to buy another member's currency from the Fund in exchange for its own currency on the following conditions:—

(*a*) The member represents that the currency demanded is presently needed for making payments in that currency which are consistent with the purposes of the Fund;

(*b*) the Fund has not given notice that its holdings of the currency demanded have become scarce, in which case the provisions of VI below come into force;

(*c*) the Fund's total holdings of the currency offered (after having been restored, if below that figure, to 75 per cent. of the member's quota) have not increased by more than 25 per cent. of the member's quota during the previous twelve months, and do not exceed 200 per cent. of the quota;

(*d*) the Fund has not previously given appropriate notice that the member is suspended from making further use of the Fund's resources on the ground that it is using them in a manner contrary to the purposes and policies of the Fund, but the Fund shall not give such notice until it has presented to the member concerned a report setting forth its views and has allowed suitable time for a reply.

The Fund may in its discretion and on terms which safeguard its interests waive any of the conditions above.

(3) Operations on the Fund's account will be limited to transactions for the purpose of supplying a member country, on the member's initiative, with another member's currency in exchange for its own currency or for gold. Transactions provided for under (4) and (7) below are not subject to this limitation.

(4) The Fund will be entitled at its option, with a view to preventing a particular member's currency from becoming scarce—

(*a*) to borrow its currency from a member country;

(*b*) to offer gold to a member country in exchange for its currency;

(5) So long as a member country is entitled to buy another member's currency from the Fund in exchange for its own currency, it shall be prepared to buy its own currency from that member with that member's currency or with gold This requirement does not apply to currency subject to restrictions in conformity with IX (3) below or to holdings of currency which have accumulated as a result of transactions of a current account nature effected before the removal by the member country of restrictions on multilateral clearing maintained or imposed under X (2) below.

(6) A member country desiring to obtain, directly or indirectly, the currency of another member country for gold is expected, provided it can do so with equal advantage, to acquire the currency by the sale of gold to the Fund. This shall not preclude the sale of newly mined gold by a gold-producing country on any market.

(7) The Fund may also acquire gold from member countries in accordance with the following provisions:—

(*a*) A member country may re-purchase from the Fund for gold any part of the latter's holdings of its currency;

(b) So long as a member's holdings of gold and gold-convertible exchange exceed its quota the Fund, in selling foreign exchange to that country, shall require that one-half of the net sales of such exchange during the Fund's financial year be paid for with gold;

(c) If at the end of the Fund's financial year a member's holdings of gold and gold-convertible exchange have increased, the Fund may require up to one half of the increase to be used to repurchase part of the Fund's holdings of its currency. So long as this does not reduce the Fund's holdings of a member's currency below 75 per cent. of its quota, or the member's holdings of gold and gold-convertible exchange below its quota.

IV. Par Values of Member Currencies

(1) The par value of a member's currency shall be expressed by the Fund when it is admitted to membership, and shall be expressed in terms of gold. All transactions between the Fund and members shall be at par, subject to a fixed charge payable by the member making application to the Fund, and all transactions in member currencies shall be at rates within an agreed percentage of parity.

(2) Subject to (5) below, no change in the par value of a member's currency shall be made by the Fund without the country's approval. Member countries agree not to propose a change of the parity of their currencies unless they consider it appropriate to correct a fundamental disequilibrium. Changes shall be made only with the approval of the Fund, subject to the provisions below.

(3) The Fund shall approve a requested change in the par value of a member's currency, if it is essential to correct a fundametal disequilibrium. In particular, the Fund shall not reject a requested change, necessary to restore equilibrium, because of the domestic, social or political policies of the country applying for a change. In considering a requested change, the Fund shall take into consideration the extreme uncertainties prevailing at the time the parities of currencies of member countries were initially agreed upon.

(4) After consulting the Fund, a member country may change the established parity of its currency, provided the proposed change, inclusive of any previous change since the establishment of the Fund, does not exceed 10 per cent. In the case of application for a further change, not covered by the above and not exceeding 10 per cent., the Fund shall give its decision within two days of receiving the application, if the applicant so requests.

(5) An agreed uniform change may be made in the gold value of member currencies provided every member country having 10 per cent. or more of the aggregate quotas approves.

V. Capital Transactions

(1) A member country may not use the Fund's resources to meet a large or sustained outflow of capital, and the Fund may require a member country to exercise control to prevent such use of the resources of the Fund. This provision is not intended to prevent the use of the Fund's resources for capital transactions of reasonable amount required for the expansion of exports or in the ordinary

course of trade, banking and other business. Nor is it intended to prevent capital movements which are met out of a member country's own resources of gold and foreign exchange, provided such capital movements are in accordance with the purposes of the Fund.

(2) Subject to VI below, a member country may not use its control of capital movements to restrict payments for current transactions or to delay unduly the transfer of funds in settlement of commitments.

VI. Apportionment or Scarce Currencies

(1) When it becomes evident to the Fund that the demand for a member country's currency may soon exhaust the Fund's holdings of that currency, the Fund shall so inform member countries and propose an equitable method of apportioning the scarce currency. When a currency is thus declared scarce, the Fund shall issue a report embodying the causes of the scarcity and containing recommendations designed to bring it to an end.

(2) A decision by the Fund to apportion a scarce currency shall operate as an authorisation to a member country, after consultation with the Fund, temporarily to restrict the freedom of exchange operations in the affected currency, and in determining the manner of restricting the demand and rationing the limited supply among its nationals the member country shall have complete jurisdiction.

VII. Management

(1) The Fund shall be governed by a Board on which each member will be represented and by an Executive Committee. The Executive Committee shall consist of at least nine members including representatives of the five countries with the largest quotas.

(2) The distribution of voting power on the Board of Directors and Executive Committee shall be closely related to quotas.

(3) Subject to II (2) and IV (5) all matters shall be settled by majority of votes.

(4) The Fund shall publish at short intervals a statement of its position showing the extent of its holdings of member currencies and gold and its transactions in gold.

VIII. Withdrawal

(1) A member country may withdraw from the Fund by giving notice in writing.

(2) The reciprocal obligations of the Fund and the country are to be liquidated within a reasonable time.

(3) After a member country has given notice in writing of its withdrawal from the Fund the Fund may not dispose of its holdings of the country's currency except in accordance with the arrangements made under (2) above. After a country has given notice of withdrawal, its use of the resources of the Fund is subject to the approval of the Fund.

IX. Obligations of Member Countries

(1) Not to buy gold at a price which exceeds the agreed parity of its currency by more than a prescribed margin and not to sell gold

at a price which falls below the agreed parity by more than a prescribed margin.

(2) Not to allow exchange transactions in its market in the currencies of other members at rates outside a prescribed range based on the agreed parities.

(3) Not to impose restrictions on payments for current international transactions with other member countries (other than those involving capital transfers or in accordance with VI above) or to engage in any discriminatory currency arrangements or multiple currency practices without the approval of the Fund.

X. Transitional Arrangements

(1) Since the Fund is not intended to provide facilities for relief or reconstruction or to deal with international indebtedness arising out of the war, the agreement of a member country to III (5) and IX (3) above shall not become operative until it is satisfied as to the arrangements at its disposal to facilitate the settlement of balance of payments differences during the early post-war transition period by means which will not unduly encumber its facilities with the Fund.

(2) During this transition period member countries may maintain and adapt to changing circumstances exchange regulations of the character which have been in operation during the war, but they shall undertake to withdraw, as soon as possible, by progressive stages any restrictions which impede multilateral clearing on current account. In their exchange policy they shall pay continuous regard to the principles and objectives of the Fund; and they shall take all possible measures to develop commercial and financial relations with other member countries which will facilitate international payments and the maintenance of exchange stability.

(3) The Fund may make representations to any member that conditions are favourable to the withdrawal of particular restrictions or for the general abandonment of restrictions inconsistent with IX (3) above. Not later than three years from the coming into force of the Fund, any member still retaining any restrictions inconsistent with IX (3) shall consult the Fund as to their further retention.

(4) In its relations with member countries, the Fund shall recognize that the transition period is one of change and adjustment, and in deciding on its attitude to proposals presented by members it shall give the member country the benefit of any reasonable doubt.

Explanatory Notes by U. K. Experts

Some of the more important respects which the joint statement as agreed between British and American technical experts differs from or resembles the proposals for an International Clearing Union published as Command 6437 are explained below:—

(1) Under the Clearing Union Plan member countries might have been said to bank with the Union with which they were to keep balances or run overdrafts. Under the International Monetary Fund Scheme on the other hand the Fund may be said to bank with member countries which undertake to grant the Fund facilities to hold and draw on their local funds. Thus if under the Clearing Union

Plan a member country drew resources from the Union, this meant that its own balance with the Union would be diminished and the balance of some other member would be increased, whereas if a member country drew resources from the Fund this means the Fund's balances with that member are increased and its balances with some other member decreased. These two arrangements represent alternative technical set-ups capable of performing precisely the same functions. The same purposes and provisions in all other respects can be carried into effect under the one as under the other It has, however, proved easier to obtain agreement on the mechanism of the proposed Fund which has the appearance of being closer to what is already familiar.

(2) As a consequence it is no longer necessary to introduce a new international unit whether bancor or unitas, since it is only if the member countries bank with the Fund that the use of a new common unit becomes unavoidable.

(3) The provisions of the Clearing Union Plan under which only the Central Banks of member countries were in a position to engage in transactions with the Union, are replaced by the analogous provisions of clause III (1), (2) and (3) under which the Fund can only engage in transactions with the monetary authority of member countries and is not free to enter the market or deal with other banks or persons.

(4) The aggregate facilities guaranteed by the initial subscriptions of members under clause II (1) are smaller than those proposed for a Clearing Union. But they are substantial and if necessary can be increased later on by general agreement. It has been argued that the present proposals involve as large a commitment as is prudent to ask in favour of an as yet untried institution. Moreover in estimating sufficiency of the facilities proposed it is necessary to bear in mind clause X (1) where it is made clear that the facilities of the Fund are not intended to provide facilities for relief or reconstruction or to deal with international indebtedness arising out of the war.

(5) The Clearing Union proposals were criticised on the ground that they made insufficient provision for elasticity of exchange rates and for subsequent modifications in the rate initially established. The new proposal explicitly provides for alteration in the exchange rates whilst maintaining the general principle that exchange rates being two-ended, so that change in parity of any currency affects the currencies of all countries, not only that of country making change, a proposed change is a proper subject for international consultation. The Fund acting in its judicial capacity, is required under clause IV (3) to approve any change essential to the correction of a fundamental disequilibrium and shall in determining the matter accept the domestic social or political policies of the country applying for a change as facts of the situation to be accepted and not criticised. Moreover during the transitional period immediately after the war it shall under clause X (4) give the member country presenting a proposal the benefit of any reasonable doubt and shall under clause IV (3) at all times take into consideration the extreme uncertainties prevailing at the time the parties of exchanges were initially agreed upon. In

addition member countries are allowed under clause IV (4) a certain margin for making unilateral changes. Finally, if a member feeling unable to accept the decisions of the Fund on this or any other matter, it is entitled under clause VIII (1) to withdraw from membership without notice or penalty, apart from the undertaking under clause VIII (2) to liquidate any outstanding obligations to the Fund within a reasonable time. Thus no member is under any obligation to continue its adherence to the conditions of membership if it comes to the conclusion that, taken as whole, they are no longer to its advantage.

(6) Provisions for securing, apart from certain temporary relaxations, eventual free interconvertibility of all national currencies on the basis of the parities of exchange rates established for the time being are the same in effect as those under the Clearing Union Plan.

(7) Clauses III (5) and IX (3) provide that a member's obligation to maintain the free convertibility of its currency applies only to transactions of a currency account nature. It does not apply to capital transfer or removal of any balances accumulated prior to acceptance of the obligation of convertibility. Clause V (1) contemplates the control of outflow of capital by members using the resources of the Fund so as to ensure that the Fund shall not be drawn upon to finance a large or sustained outflow of a capital nature. Thus the proposal allows the maintenance of exchange control in so far as it is required to carry out the above defined purposes and may even require a member to exercise control of some kind.

(8) The proposals of the Clearing Union Plan to prevent a country from using up its quota too rapidly and from drawing on the Fund too freely in condition in which its own resources are adequate without drawing on the Fund, are worked out more fully in clauses III (2) and (7) but without any difference of intention. The provisions of II (3) and III (6) and (7) are new, under which the Fund has some gold resources which may be gradually increased with the intention that such gold in the hands of the Fund will be freely available in the interests of equilibrium.

(9) It was a feature of the Clearing Union Plan proposals that they introduced certain provisions for placing on creditor countries as well as on debtor countries some pressure to share the responsibility in appropriate circumstances for maintaining reasonable stability in the balances of international payments. These have been replaced in the new proposal by a different but perhaps more far-reaching provision with the same object in view. This is under clause VI which provides that if the requirements of the Fund for the currency of a country in an unbalanced creditor position with the rest of the world seem likely to exceed the supply of that currency which the Fund is in a position to acquire to meet applications of other members, the Fund shall issue a report covering the clauses of the unbalanced position and containing recommendations designed to bring it to an end. Meanwhile the available supplies of the scarce currency will be apportioned and other members will become entitled to resume complete freedom of action in relation to the affected currency. They are allowed to take any steps at their discretion to curtail imports from the country in question and to restrict and

regulate exchange transactions so as to keep their purchases in terms of the affected currency within the limits of their ability to pay. Rather than allow such a situation to develop it would be open to a creditor country to use any of the various means to prevent development of an unmanageable unbalanced situation with the rest of the world as a whole.

(10) The provisions for the management of the new institution have not been worked out in detail in the Statement of Principles. This is an important matter left over for further discussion and development at a later date.

(11) The Clearing Union Plan proposals which were put forward at a relatively early state of the war did not attempt to deal adequately with transitional arrangements in the period following the conclusion of hostilities. Whilst there are still too many uncertainties in other directions to allow of clear cut conclusions, clause X of the joint statement carries matters somewhat further. It is there provided that a member need not assume the full obligations of membership until satisfactory arrangements are at its disposal to facilitate a settlement of its balance of payments difficulties arising out of the war. Furthermore clause X (2) contemplates a gradual evolution towards attainment of the objects of the Fund by progressive stages and no country is committed to the immediate removal of war-time restrictions and regulations. Whilst the Fund may within three years of the Fund's coming into force make representations that the time has come for further withdrawal of restrictions, no member is committed as to any fixed date for this final removal and each member is entitled to use its own judgment as to when it is strong enough to undertake free convertibility of its currency which it has accepted as a desirable aim. The drafting of this clause as the experts on both sides understand it, allows during the transition period for the maintenance and adaptation by members of the sterling area of the arrangements now in force between them. Nor is the scheme intended, when the obligation of free convertibility has been accepted, to interfere with the traditional ties and other arrangements between members of the sterling area and London.

(12) In most other respects the general aim and purposes of the new scheme are the same as those set forth in Command 6,437 in presenting the Clearing Union Plan proposals.

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THE BRETTON WOODS AGREEMENTS

The final draft of the United Nations monetary agreements is summarized below. The first concerns the Monetary Fund and the second the International Bank for Reconstruction and Development.

THE MONETARY FUND

Article One sets out its purposes. These are:—

(1) To promote international monetary co-operation through a permanent institution which provides the machinery for consultation and collaboration on international monetary problems.

(2) To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the resources of all members as primary objectives of economic policy.

(3) To promote exchange stability, to maintain orderly exchange stability and exchange arrangements among members, and to avoid competitive exchange depreciation.

(4) To assist in the establishment of a multilateral system of payments in respect of current transactions between members, and in the elimination of foreign exchange restrictions which hamper the growth of world trade

(5) To give confidence to members to make the Fund's resources available to them under adequate safeguards, thus providing them with the opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity.

(6) To shorten the duration and lessen the degree of disequilibrium in the balances of payment of members

Article Two sets conditions of membership. It provides that the "original members shall be those countries represented at the Conference whose governments accept membership before December 31, 1945, and that membership shall be open to the governments of other countries at such times and in accordance with such terms as may be prescribed by the Fund". The proposal drafted by the Conference will be submitted to the legislative bodies of the countries represented for legal ratification. Agreement of delegates at the Conference to the proposal does not bind their governments

Article Three of the text deals with quotas and subscriptions to the $8,800,000,000 Fund. Quotas for countries represented at the Bretton Woods Conference have been set, and are part of the final Fund document. The plan provides further that the "quotas of other members shall be determined by the Fund ... at intervals of 5 years' review, and, if it deems appropriate, propose an adjustment of the quotas. It may also ... consider at any other time the adjustment of any quota at the request of the member concerned. A four-fifths majority of the total voting power shall be required for any change in quotas and no quota shall be changed without the consent of the member concerned". The Article further provides that "each member shall pay in gold, as a minimum, the smaller of (1) 25 per cent. of its quota, or (2) 10 per cent. of its net official holdings of gold and dollars as at the date ... the Fund notifies members ..... it will shortly be in a position to begin exchange transactions".

"Each member shall furnish to the Fund the data necessary to determine its net official holdings of gold and U.S. dollars.

"Each member shall pay the balance of its quota in its own currency." The text contains a clause providing for an alternative gold figure agreed to by the Fund in the case of countries which, by reason of enemy occupation, cannot determine gold holdings accurately.

Article Four of the plan provides that "the par value of the currency of each member shall be expressed in terms of gold as a

common denominator, or in terms of the United States dollar of the weight and fineness in effect on Jully 1, 1944."

"Each member undertakes to collaborate with the Fund to promote exchange stability, to maintain orderly exchange arrangements with other members, and to avoid competitive exchange alterations." The Fund plan provides machinery for changing the par value of a member's crurency "only on the proposal of the member and only after consultation with the Fund". The plan allows for an initial 10 per cent. increase in par value to which the Fund shall raise no objection.

Section five of Article Four provides for further increases in this manner; in the case of "(an increase which) does not exceed a further 10 per cent. of the initial par value the Fund may either concur or object, but shall declare its attitude within 72 hours if the member so requests".

"(On changes not within these groups) the Fund may either concur or object, but shall be entitled to a longer period of time to declare its attitude". The plan also provides that members can make such changes in par value as do not affect the international transactions of members of the Fund, without concurrence.

Article Four also outlines penalties for unauthorised changes in par value by a member. The sanctions which can be evoked are ineligibility, to use the resources of the Fund, or in certain cases expulsion from membership. In the matter of uniform changes in par value the plan provides: "... the Fund, by a majority of the total voting power, may make uniform proportionate changes in the par value of the currencies of all members provided each such change is approved by every member which has a 10 per cent. or more total of the quotas. The par value .. .. shall, however, not be changed under this provision if, within 72 hours, the member informs the Fund that it does not wish the par value of its currency to be changed by such action."

Article Five sets methods for conducting transactions with the Fund. It says (in part): "Each member shall deal with the Fund only through its Treasury, Central Bank, Stabilisation Fund, or other similar fiscal agency, and the Fund shall deal only with or through the same agencies."

Article Five also sets up a system of sliding scale charges which the Fund may levy against members based on the average daily balance of its currency held by the Fund in excess of the member's quota.

This system of fees is an important part of the Fund's operation, since the amounts involved are sizeable and are designed to discourage continuing unbalanced trends of currencies flowing into the Fund.

Article Six makes it impossible for a member to use the Fund "to meet a large or sustained outflow of capital".

Article Seven is devoted to the control of scarce currencies in the Fund. It says (in fact): "If the Fund finds that a general scarcity of a particular currency is developing, it may so inform members and may issue a report setting forth the cause of the scarcity and containing recommendations designed to bring it to an end. A

representative of the member whose currency is involved shall participate in the preparation of the report.

"The Fund may, if it deems such action appropriate to replenish its holdings of any member's currency, take either or both of the following steps:—

(1) Propose to the member that ... the latter lend its currency to the Fund or that, with the approval of the member, the Fund borrow such currency from some other (source which is prepared to) ... make such loans to the Fund or to approve the borrowing of its currency by the Fund from any other source. (2) Require the member to sell its currency to the Fund for gold

Article Eight sets forth the general obligations of Fund members to avoid restrictions on currency payments, to avoid discriminatory currency practices, and to agree to the furnishing of whatever information "the Fund may require ... for its operations, including, as the minimum necessary" ... official holdings at home and abroad by banking and financial agencies, other than official agencies, of (1) gold, (2) foreign exchange; production of gold; gold exports and imports; total exports and imports of merchandise; international balance of payments, including (*i*) trade in goods and services, (*ii*) gold transactions, and (*iii*) known capital transactions; international investment position; national income; ... buying and selling rates for foreign currencies; exchange controls; details of amounts awaiting clearance in respect of commercial and financial transactions.

Article Nine established the status, immunities, and privileges of the Fund. It shall be immune from judicial process; and from all taxation and Customs duties.

Article Ten provides for "co-operation with ..... other international organisations".

Article Eleven requires member nations not to engage in any transactions with non-member nations which would be contrary to "the provision of this agreement or the purposes of the Fund".

Article Twelve provides that the Fund shall have a board of governors, executive directors, managing directors, and a staff .... there shall be not less than 12 directors, who need not be governors ..... five shall be appointed by the five members with the largest quotas ..... two shall be elected by the American Republics not entitled to appoint directors ... five shall be elected by other members not entitled to appoint directors". Election is to be by proportional representation. The executive directors shall function in continuous session. They shall select a managing director who shall not be a governor or an executive director. Each member shall have 250 votes, plus one additional vote for each part of its "equivalent to 100,000 United States dollars".

Article Thirteen establishes that "the principal office of the Fund shall be located in the territory of the member having the largest quota, and agencies or branch offices may be established in the territories of the other members".

Article Fourteen is devoted to the Fund's status in the transitional period, and establishes that "the Fund is not intended to

provide facilities for relief or reconstruction, or to deal with international indebtedness growing out of the war". It also provides for members' withdrawing exchange restrictions "as soon as they are satisfied that they will be able in the absence of such restrictions to settle their balance of payments in a manner which will not unduly encumber their access to the resources of the Fund".

Article Fifteen recognises the right of members to withdraw from the Fund "at any time by transmitting a notice in writing to the Fund at its principal office". This section also traces in technical detail the settlement of accounts with members withdrawing. "with reasonable dispatch, and by agreement between (the member) and the Fund".

Article Sixteen is devoted to emergency provisions, the most important of which is "the executive directors by unanimous vote may suspend for a period of not more than 120 days the operation of (the main functions) of the fund".

Article Seventeen sets a method for amending the Fund plan "when three-fifths of the members, having four-fifths of the total voting power have accepted an amendment ..."

Articles Eighteen and Nineteen are devoted to the interpretation and explanation of terms.

Aarticle Twenty establishes that "this agreement shall enter into force when it has been signed on behalf of governments having 65 per cent. of the total quotas ...... but in no event ...... before May 1, 1945".

The Reconstruction Bank

The articles of the International Bank for Reconstruction and Development provide that the agreement shall enter into force when it has been signed on behalf of governments whose minimum subscriptions comprise not less than 65 per cent. of the total subscriptions of the nations at the Conference.

The first Article sets out its purposes. These are:—

(1) To assist in the reconstruction and development of territories of members by facilitating the investment of capital for productive purposes, including the restoration of economies destroyed or disrupted by war, the reconversion of productive facilities to peacetime needs and the encouragement of the development of productive facilities and resources in less developed countries.

(2) To promote private foreign investment by means of guarantees or participations in loans and to supplement private investment when private capital is not available on reasonable terms.

(3) To promote the long-range balanced growth of international trade and encourage international investment for the development of the productive resources of members, thereby assisting in raising productivity, the standard of living and conditions of labour in their territories.

(4) To arrange loans made or guaranteed so that the more useful and urgent projects, large and small alike, will be dealt with first.

(5) To conduct its operations so as to bring about a smooth transition from a war-time to peace-time economy.

The guaranteeing in whole or in part of loans made by private investors through the usual investment channels is to constitute the major operation of the bank, accounting for 80 per cent. of its resources. Twenty per cent., or £2,000 million, plus earned surpluses, is to be the extent of direct loans by the bank.

The original members of the Bank shall be those members of the International Monetary Fund which accept membership in the Bank before 31st December 1945.

The authorised capital stock of the Bank shall be 10,000 million U.S. dollars divided into 100,000 shares available for subscription only by members. Capital stock can be increased when voted by a three-quarters majority of the total voting power.

Twenty per cent. of the subscription shall be paid or subject to call as needed by the Bank for its operation, the remaining 80 per cent. being subject to call by the Bank or when required to meet the obligations of the Bank.

Two per cent. of the subscriptions shall be payable in gold or U.S. dollars provided that any original member whose metropolitan territory has suffered from enemy occupations or hostilities during the present war shall be granted the right to postpone payment in gold of one-half per cent. (a quarter of the payment) for five years. An original member whose gold reserves are still seized or immobilised as a result of the war may postpone all payments until such date as the Bank shall decide.

For the Bank to make loans to members it must be satisfied that the borrowers would be unable to obtain the loan otherwise under reasonable conditions and due regard must also be paid to the prospects that the borrower or the guarantor will be in a position to meet his obligations. In guaranteeing a loan made by other investors the Bank shall receive suitable compensation.

All the powers of the Bank shall be vested in the Board of Governors. When a Government ceases to be a member it shall remain liable for its direct obligations to the Bank and contingent liabilities with respect to loans and guarantees entered into thereafter by the Bank.

Amendments may be made to the bank agreement when three-fifths of the members having four-fifths of the total voting power have accepted the proposed amendment.

THE SAN FRANCISCO CHARTER

The effectiveness of central banking in any country should depend on the structure of international monetary and banking arrangements, and this in its turn should very largely depend on the type of organisation (and working of that organisation) set up for international security and justice. For the convenience of the general reader, the gist of the San Francisco Charter and opinions thereon by eminent statesmen are given below.

The Charter, which forms the statute of international relations in the post-war world, comprises 19 chapters and declares its aims in the preamble, which says that the people of the United Nations are determined "to save the succeeding generations from the scourge of war; reaffirm faith in human rights, in equal rights of men and women and nations, large and small; establish conditions under which justice, respect for obligations arising from treaties and other sources of international law can be maintained; promote social progress and better standards of life in larger freedom".

To accomplish these aims, says the preamble, the United Nations are resolved to "practise tolerance and live together in peace as good neighbours; unite our strength to maintain international peace and security; insure that the armed force shall not be used save in the common interest".

Here is an outline of the Charter which declares that "The organisation is based on the principle of sovereign equality of all its members".

The purposes of the new organisation are to maintain international peace and security and take effective collective measures to that end and to achieve international co-operation in solving world problems of economic, social, cultural or humanitarian character.

The organisation will have, firstly a General Assembly composed of all members, with power to discuss and make recommendations.

Secondly, a Security Council consisting of 11 members—the five Big Powers as permanent members and six non-permanent members elected by the General Assembly. On non-procedural matters, the permanent members have the power of veto.

Thirdly, an Economic and Social Council, consisting of 18 members elected by the General Assembly, to study and make recommendations to the Assembly on international, economic, social, cultural, educational and health questions.

Fourthly, a Trusteeship Council, including States administering trust territories, and other members elected by the Assembly in equal number. This Council will have power to pay periodic visits to trust territories.

Fifthly, an International Court of Justice to succeed the Permanent Court of International Justice at the Hague.

Sixthly, a secretariat headed by a Secretary-General appointed by the General Assembly on the Security Council's recommendation. The Charter lays down that the secretariat takes its orders from the organisation and not from any Government.

On regional agreements within the new world plan, the Charter declares that members of the United Nations entering into regional

agreements shall make every effort to achieve peaceful settlements of local disputes before referring them to the Security Council.

The Charter incorporates the declaration that States administering non-self-governing territories "recognise the principle that the interests of the inhabitants of these territories are paramount", and accept the well-being of the inhabitants as a "sacred trust".

UNITED NATIONS' CHARTER

The following is the text of the United Nations' Charter:—

The Charter opens with a preamble which says: "We, the peoples of the United Nations, determined to save the succeeding generations from the scourge of war, which twice in our life-time has brought untold sorrow to mankind, and to reaffirm our faith in the fundamental human rights, in the dignity and value of the human person, in the equal rights of men and women, and of nations, large and small; and to establish conditions under which justice and respect for obligations arising from treaties and other sources of international law can be maintained; and to promote social progress and better standards of life in large freedom, and for these ends to practise tolerance and live together in peace with one another as good neighbours; and to unite our strength to maintain international peace and security, and by accepting principles and institution of methods to insure that armed force shall not be used save in the common interest and by the employment of international machinery for the promotion of economic and social advancement of all peoples, have resolved to combine our efforts to accomplish these aims.

Accordingly, our respective Governments, through representatives assembled in the City of San Francisco, who exhibited their full powers found to be in good and due form, have agreed to the present Charter of the United Nations and do hereby establish an international organisation to be known as the United Nations."

Maintenance of Security

The purposes defined in Article 1 are:—

"To maintain international peace and security, and to that end, take effective collective measures for prevention and removal of threats to peace, and for suppression of facts of aggression or other breaches of peace, and to bring about by peaceful means and in conformity with the principles of justice and international law an adjustment or settlement of international disputes or situations which might lead to a breach of peace; to develop friendly relations among the nations, based on respect for the principle of equal rights and self-determination of peoples; to achieve international co-operation in solving international problems of an economic, social, cultural or humanitarian character, and in promoting and encouraging respect for human rights and for the fundamental freedoms for all, without distinction as to race, sex, language or religion."

Equality of Members

Article 2 defines the principles of the Charter and says:

"The organisation is based on the principle of sovereign equality of all its members.

"All members, in order to ensure to all of them the rights and benefits resulting from membership, shall fulfil in good faith the obligations assumed by them in accordance with the present Charter.

"All members shall settle their international disputes by peaceful means in such a manner that international peace and security and justice are not endangered.

"All members shall refrain, in their international relations, from threat or use of force against the territorial integrity or political independence of any State or in any other manner inconsistent with the purposes of the United Nations.

"All members shall give the United Nations every assistance in any action it takes in accordance with the present Charter, and shall refrain from giving assistance to any State against which the United Nations is taking preventive or enforcement action.

"The organisation shall ensure that States which are not members of the United Nations act in accordance with these principles so far as may be necessary for the maintenance of international peace and security.

"Nothing contained in the present Charter shall authorise the United Nations to intervene in matters which are essentially within the domestic jurisdiction of any State but this principle shall not prejudice the application of enforcement measures under Chapter 7."

ADMISSION AND EXPULSION

Chapter 2 deals with membership. Under Article 3, "the original members of the United Nations shall be the States which, having participated in the United Nations Conference on international organisation at San Francisco or having previously signed the Declaration by the United Nations of January 12, 1942, sign the present Charter and ratify it."

Articles 4, 5 and 6 provide that "membership in the United Nations is open to all other peace-loving States which accept the obligations contained in the present Charter and, in the judgment of the organisation, are able and willing to carry out these obligations.

"A member of the United Nations against which preventive or enforcement action has been taken by the Security Council may be suspended from the exercise of the rights and privileges of membership by the General Assembly upon recommendation of the Security Council.

"A member of the United Nations which has persistently violated the principles contained in the present Charter may be expelled from the organisation by the General Assembly upon recommendation of the Security Council."

Chapters 3 and 4 deal with organs set up under the Charter.

"There are established as the principal organs of the United Nations: the General Assembly, Security Council, the Economic and Social Council, the Trusteeship Council, the International Court of Justice and the Secretariat.

The United Nations shall place no restrictions on the eligibility of men and women to participate in any capacity and under conditions of equality in its principal and subsidiary organs.

GENERAL ASSEMBLY

The General Assembly shall consist of all the members of the United Nations. Each member shall have not more than five representatives in the General Assembly.

Defining the functions and powers of the organs set up, the Charter rules that "the General Assembly may discuss any questions or any matters within the scope of the present Charter or relating to the powers and functions of any organs provided in the present Charter."

The General Assembly may consider the general principles of co-operation in the maintenance of international peace and security, including principles governing disarmament and regulation of armaments, and may make recommendations with regard to such principles to members or to the Security Council or both.

The General Assembly may discuss any questions relating to the maintenance of international peace and security brought before it by any member of the United Nations or by the Security Council or by a State which is not a member of the United Nations.

The General Assembly may call the attention of the Security Council to situations which are likely to endanger international peace and security.

While the Security Council is exercising in respect of any dispute or situation the functions assigned to it in the present Charter, the General Assembly shall not make any recommendation with regard to that dispute or situation unless the Security Council so requests.

The General Assembly shall initiate studies and make recommendations for the purpose of : (*a*) promoting international co-operation in the political field and encouraging progressive development of international law and its codification; (*b*) promoting co-operation in the economic, social, cultural and health fields and assisting in the realisation of human rights and the fundamental freedoms for all without distinction as to race, sex, language or religion.

The General Assembly may recommend measures for peaceful adjustment of any situation, regardless of the origin, which it deems likely to impair the general welfare or friendly relations among nations, including situations resulting from violation of the provisions of the present Charter setting forth the purpose and principles of the United Nations.

The General Assembly shall perform such functions with respect to the international trusteeship system as are assigned to it under Chapters 12 and 13, including approval of trusteeship agreement for areas not designated as strategic.

The expenses of the organisation shall be borne by members as apportioned by the General Assembly.

Under the heading of Voting, the Charter says: "Each member of the General Assembly shall have one vote. The decisions of the General Assembly on important questions shall be made by a two-thirds majority of the members present and voting. These questions shall include: recommendations with respect to maintenance of international peace and security, election of non-permanent members of the Security Council, election of members of the Economic and Social Council, election of members of the Trusteeship Council, admission of new members to the United Nations, suspension of rights and privileges of membership, expulsion of members, questions relating to the operation of the Trusteeship system and budgetary questions.

Decisions on other questions, including determination of additional categories of questions to be decided by a two-thirds majority, shall be made by a majority of the members present and voting."

The Charter provides that a member two years or more in arrears with its contributions shall have no vote in the General Assembly unless the Assembly is satisfied that failure to pay is due to conditions beyond the member's control.

The General Assembly shall meet in regular annual sessions, electing its President for each session, and shall hold such special sessions as occasion may require.

SECURITY COUNCIL

Chapter 5 deals with the Security Council. The Security Council shall consist of 11 members of the United Nations

The Republic of China, France, the Union of Soviet Socialist Republics, the United Kingdom of Great Britain and Northern Ireland and the United States of America shall be permanent members of the Security Council.

The General Assembly shall elect six other members of the United Nations to be non-permanent members of the Security Council, due regard being specially paid, in the first instance, to the contribution of members of the United Nations, to the maintenance of international peace and security and to other purposes of the organisation and also to equitable geographical distribution

Non-permanent members of the Security Council shall be elected for a term of two years. In the first election of non-permanent members, however, three shall be chosen for a term of one year. A retiring member shall not be eligible for immediate re-election.

Each member of the Security Council shall have one representative.

The members of the United Nations agree to accept and carry out the decisions of Security Council in accordance with the present Charter.

In order to promote the establishment and maintenance of international peace and security with the least diversion, for armaments, of the world's human and economic resources, the Security Council shall be responsible for formulating, with the assistance of the Military Staff Committee, plans to be submitted to the members of the United Nations for the establishment of a system for the regulation of armaments. Each member of the Security Council shall have one vote.

The decisions of the Security Council on procedural matters shall be made by an affirmative vote provided that, in decisions under Chapter 2 and under para 3 of Article 52—the Party to the Dispute shall abstain from voting.

The Security Council shall be so organised as to be able to function continuously. Each member of the Security Council shall for this purpose be represented at all times at the seat of the organisation.

The Security Council shall hold periodic meetings at which each of its members may, if it so desires, be represented by a member of the Government or by some other specially designated representative.

The Security Council may hold meetings at such places other than the seat of the organisation as in its judgment will best facilitate its work.

The Security Council shall adopt its own rules of procedure,

including the method of selecting its President. Any member of the United Nations may participate without a vote in the discussion of any question brought before the Security Council whenever the latter considers that the interests of that member are specially affected.

Any member of the United Nations which is not a member of the Security Council or any State which is not a member of the United Nations, if it is party to the dispute under consideration by the Security Council, shall be invited to participate without vote in the discussion relating to the dispute.

SETTLEMENT OF DISPUTES

Chapter 6 deals with pacific settlements of disputes. Parties to a dispute which is likely to endanger maintenance of international peace and security shall first of all seek a solution by negotiation, conciliation, arbitration, settlement, resort to regional agencies or any other arrangements or other means of their own choice.

It provides that the Security Council, when it deems necessary, may call upon the parties to settle their dispute by such means and may investigate any dispute Any member of the United Nations may bring any dispute to the attention of the Security Council or the General Assembly.

A State which is not a member of the United Nations may bring to the attention of the Security Council or of the General Assembly any dispute to which it is party.

The Security Council should also take into consideration that legal disputes should, as a general rule, be referred by the parties to the International Court of Justice.

Should parties to the dispute fail to settle it by negotiation, they should refer to the Security Council which may recommend such terms of settlement as it may consider appropriate.

PREVENTING AGGRESSION

Chapter 7 is devoted to action with respect to threats to peace and acts of aggression.

The Security Council shall determine the existence of any threat to peace, breach of peace or act of aggression and shall make recommendations or decide what measures shall be taken to maintain or restore international peace and security.

In order to prevent aggravation of a situation, the Security Council may call upon the parties concerned to comply with such provisional measures as it deems necessary or desirable without prejudice to the rights, claims or position of the parties concerned.

The Security Council may decide what measures, not involving use of armed force, are to be employed to give effect to its decisions and it may call upon members of the United Nations to apply such measures. These may include complete or partial interruption of economic relations and of rail, sea, air, postal, telegraphic, radio and other means of communication and severance of diplomatic relations.

Should the Security Council consider that these measures are inadequate, it may take such action by air, sea or land forces as may be necessary to maintain or restore international peace and security. Such actions may include demonstrations, blockade and other operations by air, sea or land forces of members of the United Nations.

Members of the United Nations, in order to contribute to the maintenance of international peace and security, undertake to make

available to the Security Council on its call and in accordance with a special agreement or agreements armed forces, assistance and facilities, including the rights of passage necessary, for the purpose of maintaining international peace and security.

Such agreement or agreements shall govern the numbers and types of forces, their degree of readiness and general location and the nature of facilities and assistance to be provided.

The agreement or agreements shall be negotiated as soon as possible on the initiative of the Security Council. They shall be concluded between the Security Council and the members or between the Security Council and groups of members and shall be subject to ratification by the signatory States in accordance with their constitutional processess.

When the Security Council decides to use force, it shall, before calling upon a member, not represented on it, to provide armed forces in fulfilment of obligations assumed, invite that member, if the member so desires, to participate in the decisions of the Security Council concerning the employment of contingents of the member's armed forces.

In order to enable the United Nations to take urgent military measures, members shall hold immediately available national air force contingents for combined international enforcement action. The strength and degree of readiness of these contingents and plans for their combined action shall be determined by the Security Council with the assistance of the Military Staff Committee. Plans for the application of armed force shall be made by the Security Council with the assiscance of the Military Staff Committee.

MILITARY STAFF COMMITTEE

There shall be established a Military Staff Committee to advise and assist the Security Council on all questions relating to the Security Council's military requirements for the maintenance of international peace and security, the employment and command of the forces placed at its disposal, regulation of armaments and possible disarmament.

The Military Staff Committee shall consist of the Chiefs of Staff of the permanent members of the Security Council or their representatives. Any member of the United Nations not permanently represented on the Committee shall be invited by the Committee to be associated with it when efficient discharge of the Committee's responsibilities required the participation of that member in its work.

The Military Staff Committee shall be responsible, under the Security Council, for the strategic direction of any armed forces placed at the disposal of the Security Council. Questions relating to the command of such forces shall be worked out subsequently. Action required to carry out the decisions of the Security Council for the maintenance of international peace and security shall be taken by all the members of the United Nations or by some of them as the Security Council may determine. Such decisions shall be carried out by members of the United Nations directly and through their action in appropriate international agencies of which they are members. Members of the United Nations shall join in affording equal assistance in carrying out the measures decided upon by the Security Council.

If preventive or enforcement measures against any State are taken by the Security Council, any other State, whether a member of the United Nations or not which finds itself confronted with special economic problems arising from the carrying out of those measures shall have the right to consult the Security Council with regard to the solution of those problems.

Nothing in the present Charter shall impair the inherent right of individual or collective self-defence if an armed attack occurs against a member of the United Nations until the Security Council has taken measures necessary to maintain international peace and security.

Measures taken by members in the exercise of this right of self-defence shall be immediately reported in the Security Council and shall not, in any way, affect the authority and responsibility of the Security Council under the present Charter to take, at any time, such action as it deems necessary in order to maintain or restore international peace and security.

Regional Arrangements

Chapter 8 refers to regional arrangements:

Nothing in the present Charter precludes the existence of regional arrangements or agencies for dealing with such matters relating to the maintenance of international peace and security as are appropriate for regional action, provided such arrangements or agencies and their activities are consistent with the purposes and principles of the United Nations.

Under paragraph three of this provision—Article 52 of the Charter—it is stated "the Security Council shall encourage the development of pacific settlement of local disputes through such regional arrangements or by such regional agencies either on the initiative of the States concerned or by a reference from the Security Council.

The Security Council shall, where appropriate, utilise such regional arrangements or agencies for enforcement action under its authority. But no enforcement action shall be taken under regional arrangements or by regional agencies without the authorisation of the Security Council, with the exception of measures against any enemy State or in regional arrangements directed against a renewal of aggressive policy on the part of any such State until such time as the organisation may, on the request of the Governments concerned, be charged with the responsibility for preventing further aggression by such State.

The term 'enemy State' applies to any State which, during the second World War, has been the enemy of any signatory of the present Charter.

The Security Council shall at all times be kept fully informed of the activities undertaken, or in contemplation, under regional arrangements or by regional agencies for the maintenance of international peace and security.

Economic and Social Co-operation

Chapter 9 deals with international economic and social co-operation necessary for the creation of conditions of stability and well-being needed for peaceful and friendly relations among nations.

The United Nations shall promote: (*a*) higher standards of living, full employment and conditions of economic and social progress and development; (*b*) solutions of international economic, social, health and related problems, international cultural and educational co-operation; and (*c*) universal respect for and observance of human rights and fundamental freedoms for all without distinction as to race, language or religion.

All the members pledge themselves to take joint and separate action in co-operation with the organisation for the achieving of these purposes.

Various specialised agencies established by an inter-governmental agreement and having wide international responsibilities shall be brought into relationship with the United Nations.

Responsibility for the discharge of the functions of the organisation set forth in this chapter shall be vested in the General Assembly, and under authority of the General Assembly in the Economic and Social Council.

Chapter 10 defines the composition, functions and powers of this Council. It is to consist of 18 members of the United Nations elected by the General Assembly, six members being elected each year for a term of three years except at the first election when the term of office of six members will expire at the end of one year, and of six other members at the end of two years.

Each member of the Economic and Social Council is to have one representative. The Economic and Social Council may make or initiate studies and reports with respect to international, economic, social, cultural, educational, health and related matters and may make recommendations with respect to any such matters to the General Assembly to the members of the United Nations and to the specialised agencies concerned. It may call, in accordance with rules prescribed by the United Nations, international conferences on matters falling within its competence

The Economic and Social Council may enter into agreements with any of the various specialised agencies, defining the terms on which the agency concerned shall be brought into relationship with the United Nations and may take appropriate steps to obtain regular reports from them. Each member of the Economic and Social Council will have one vote and decisions will be taken by majority.

The Economic and Social Council is empowered to set up Commissions in economic and social fields and for the promotion of human rights.

TRUSTEESHIP

Chapter 11 contains a declaration regarding non-self-governing territories.

Members of the United Nations which have or assume responsibilities for the administration of territories whose peoples have not yet attained full measure of self-government recognise the principles that the interests of the inhabitants of these territories are paramount and accept as a sacred trust the obligations to promote to the utmost, within the system of international peace and security established by the present Charter, the well-being of the inhabitants of these territories and to this end: to ensure with due respect for the culture

of the peoples concerned, their political, economic, social and educational advancement, their just treatment and their protection against abuses; to develop self-government, to take due account of the political aspirations of peoples and to assist them in the progressive development of their free political institutions according to the particular circumstances of each territory and its peoples and their varying stages of advancement; to transmit regularly to the Secretary-General for information purposes, subject to such limitation as security and constitutional considerations may require, statistical and other information of a technical nature relating to the economic, social and educational conditions.

Chapter 12 is devoted to the international trusteeship system.

The United Nations shall establish under its authority an international trusteeship system for the administration and supervision of such territories as may be placed thereunder by subsequent individual agreements. These territories are hereinafter referred to as trust territories.

"These provisions, it is explained, should not be construed as altering the rights of any States or any peoples or the terms of existing international instruments to which members may respectively be parties, but at the same time this should not be interpreted as giving grounds for delay or postponement of negotiation and conclusion of agreements for placing mandated and other territories under the Trusteeship system.

"The trusteeship agreement shall, in each case, include the terms under which trust territory will be administered and designate the authority which will exercise the administration of Trust territory. Such authority, hereinafter called the Administering Authority, may be one or more States or the organisation itself."

There may be designated in any trusteeship agreement strategic area or areas which may include part or all of the trust territory to which the agreement applies.

"All functions of the United Nations relating to strategic areas, including approval of terms of trusteeship agreements and of their alteration or amendment, shall be exercised by the Security Council.

"It shall be the duty of the administering authority to ensure that the trust territory shall play its part in the maintenance of international peace and security. To this end the administering authority may make use of volunteer forces, facilities and assistance from the trust territory in carrying out obligations towards the Security Council undertaken in this regard by the administering authority as well as for local defence and the maintenance of law and order within the trust territory.

"The functions of the United Nations with regard to trusteeship agreements for all areas designated as strategic, including the approval of terms of trusteeship agreements and of their alternation of amendment, shall be exercised by the General Assembly.

Composition of Council

The Trusteeship Council operating under the authority of the General Assembly shall assist the General Assembly in carrying out these functions.

Chapter Thirteen defines the composition, functions and powers of the Trusteeship Council.

"The Trusteeship Council shall consist of the following members of the United Nations: (*a*) those members administering trust territories; (*b*) such of those members mentioned by name in Article 23 (first article and Chapter Five which mentions China, France, the U.S.S.R., the United Kingdom and the United States) as are not administering trust territories: and (*c*) as many other members elected for three-year terms by General Assembly as may be necessary to ensure that the total number of members of the Trusteeship Council is equally divided between those members of the United Nations which administer the trust territories and those which do not. Each member of the Trusteeship Council shall designate one specially qualified person to represent it therein."

The General Assembly and under its authority, Trusteeship Council in carrying out their functions, may consider the reports submitted by the administering authority to accept petitions and provide for periodic visits to the respective trust territories.

"The Trusteeship Council shall formulate a questionnaire on the political, economic, social and educational advancement of the inhabitants of each trust territory within the competence of the General Assembly and shall make an annual report to the General Assembly upon the basis of such a questionnaire."

Each member of the Trusteeship Council will have one vote and decisions will be taken by the majority.

The Trusteeship Council shall, when appropriate, avail itself of the assistance of the Economic and Social Council and of specialised agencies in regard to matters with which they are respectively concerned.

INTERNATIONAL COURT

Chapter Fourteen provides that the International Court of Justice shall be the principal judicial organ of the United Nations. "All members of the United Nations are *ipso facto* parties to the Statute of the International Court of Justice.

A State which is not a member of the United Nations may become a party to the Statute of the International Court of Justice on conditions to be determined in each case by the General Assembly upon recommendation of the Security Council.

Each member of the United Nations undertakes to comply with the decision of the International Court of Justice in any case to which it is a party.

If any party to a case fails to perform the obligations incumbent upon it under the judgment rendered by the Court, the other party may have recourse to the Security Council which may, if it deems necessary, make recommendation or decide upon the measures be taken to give effect to the judgement."

Chapter Fifteen deals with the formation and functions of the Secretariat of the United Nations.

Chapter Sixteen contains a number of miscellaneous provisions including the following: "In the event of a conflict between the obligations of members of the United Nations under the present

Charter and any other international obligations to which they are subject, their obligations under the present Charter shall prevail."

Chapter Seventeen provides for transitional security arrangements and Chapter Eighteen makes provision for amendments to the Charter.

Chapter Nineteen deals with the ratification and signature of the Charter and states that the Charter shall come into force upon the deposit of ratifications by the Republic of China, France, the Union of Soviet Socialist Republics, the United Kingdom of Great Britain and Northern Ireland and the United States of America and by the majority of the other signatory States.

British Delegation Satisfied

San Francisco, June 24.

United Kingdon delegates to the United Nations Conference agreed, on the eve of the signing of the historic document, that the San Francisco Conference "has been a completely successful one in producing a Charter which, if ratified and observed, offers the world real hope of lasting peace and security."

In an informal reply to the Associated Press poll of the World Security Conference delegations, the British delegation added, "This is what the Conference set out to do."

Ratification of the Charter was predicted soon after the new Government had been established following the July elections, with an early " debate " in the House of Commons and the Lords. It was explained that the Government could ratify the Charter without submitting it to Parliament, but would not act on such an important matter without giving the two Houses an opportunity to debate.

In reply to the Associated Press questionnaire, they gave full explanation as to why the British delegation offered only the minimum separate amendments to the original Dumbarton Oaks Plan. Outside the trusteeship suggestions, the United Kingdom delegates sought only to gain a special mention of the International Labour Organisation and permit the General Assembly to make general recommendations on a peaceful adjustment of any situation.

The mention of the I.L.O. will not appear in the Charter, but an understanding was reached in the Committee proceedings that this organisation would be one of the first inter-Governmental agencies with which the World Organisation would establish relationships. Many of Britain's aims were incorporated in the thirty amendments originally offered by the four sponsoring Powers, it was explained. The United Kingdom delegates therefore decided to "make a run for them".

These adequate body of principles offer flexibility of operations for the new organisation, an overall power to the Security Council, improved status for the social and economic Council and adequate recognition for the so-called "middle Powers," such as Australia and Canada. The position of the British delegation to-day was that it "was well satisfied".—A.P.A.

DR. EVATT'S DIG AT BIG FIVE

San Francisco, June 25.

At the final Steering Committee meeting, Manuelo Gallacher of Peru was handing out compliments. He proposed a standing vote of acclamation for the representatives of the Big Powers. When this had been given, he suggested a similar tribute to Dr. Evatt "as a great champion of the smaller nations".

Dr. Evatt, in the course of his reply, looked towards the end of the table where the members of the Big Five nations were seated and remarked. "I would like to say a great deal more, but I am afraid somebody might exercise their power of veto against me."

The meeting ended in a burst of laughter.—A.P A.

The head of the British delegation, Lord Halifax, in his final speech said: "The Charter is a notable advance on all that has gone before and on the plan of the sponsor Powers from which it grew I do not doubt that in this result the future will acknowledge the part of all the United Nations and not the least, I hope, that of the different members of the British Commonwealth. We cannot indeed claim that our work is perfect or that we have created an unbreakable guarantee of peace. But we have, I am convinced, forged an insturment whereby, if men are serious in wanting peace and are ready to make sacrifices for it, they may find the means to win it.

"It is but the beginning of a long challenging endeavour. Time alone can show whether the house which we have built rests on shifting sand or, as I firmly believe, on solid rock, to stand as a shield and shelter against every storm."

The United States Secretary of State, Mr. Edward Stettinius, said: "This Charter is compact, born of suffering and war. With it now rests our hope for a good and lasting peace. The words upon its parchment chart the course by which the world in agony can be restored, peace maintained and human rights and freedoms advanced. It is a course which I believe to be within the will and capacity of nations at this period of world history."

The Soviet Ambassador to the United States, M. A. Gromyko, said, "The Charter affords solid ground to consider the work of the Conference a success. To guarantee that the provisions of the Charter will be carried out and to ensure preservation of peace, it is necessary to have unity and co-ordination of action of members of the International Organisation and first of all, between the most powerful military Powers of the world.

"I am confident that our efforts will be beneficial for all the peace-loving peoples of the world who endured so many hardships and sufferings as a result of the conflagration started by Hitlerite Germany."

"The head of the French delegation, M. Paul Boncour, emphasised that the new Charter eliminated a serious flaw in the structure of the League of Nations—lack of force to back up its decisions "In the Charter, the obligation for all member States to help in suppressing aggression is plainly established," M. Boncour said, "In this way the international organisation will no longer be against violence." The Czechoslovakia Foreign Minister, M. Jan Masaryk, appealed to the delegates to "stop talking of the next world war". The language heard in certain places aroused suspicions at a moment when mutual confidence is all important, he added,

The chief Indian delegate to the San Francisco Conference, Sir A. Ramaswami Mudaliar, said on signing the Charter to-day: "It gives me and my colleague, Sir V. T. Krishnamachari, real pleasure to put our signature to this Charter. Its text conveys to the peoples of the world the remarkable degree of agreement that delegates of 50 nations have been able to reach on the fundamental principles, objectives and methods of achievement of their aims. It is our belief that our country will endorse the Charter, and we hope that it will receive similar endorsement from all other nations.

"But the future of world peace, the hopes of millions of the human race, the expectation of happier relations between men of different races and religions, the equal rights of men and women, enjoyment of the fundamental freedoms by all—these do not depend on texts however eloquent in any Charter. They depend on the spirit in which the nations are prepared to respect and adopt the bold sentiments and objectives of the Charter.

"If the Charter were to be so respected and the signatory nations to adopt in practice its injunctions, then under the wise dispensation of Providence we shall have here, at San Francisco, made it possible to move one step nearer to that divine goal when it will be possible to convoke a Parliament of man and establish a federation of the world."

The new world Charter "provides for a peace with teeth", declared General Smuts at the closing session of the United Nations Conference.

He said: "San Francisco is to-day in the centre of a vast drama of war and peace which has dominated our time. Men and women on a world-wide scale have suffered as never before in history. However much they may try to remain cheerful, they cannot help being gripped by a secret fear for the future. They have seen the mounting horror of war, and science warns them to expect far worse in a future war. Not even our overwhelming victory in Europe has stilled their fears. No wonder that for the last couple of months their eyes have been fixed on San Francisco—their eyes, their hopes, their prayers. If the Charter we have drafted here should fulfil their longing for a peaceful world, it may yet come to rank among the greatest documents of history."

The Charter was not perfect, added General Smuts. It was full of compromises, but it was a very real and substantial advance on all previous plans for security. It provided for the unity of peace-loving peoples against future aggressors; for a united front among the greater Powers backed by the forces of smaller Powers as well. It provided also for lesser combinations for prompt defence on a regional or local basis and for a central organisation and direction of the joint forces for peace. The Charter envisaged also a social and economic organisation of the peoples intended to raise the levels and standards of life, and by thus removing social injustice, to strike at the very roots of war.

Men and women everywhere, including dependent peoples still unable to look after themselves, were thus drawn into a vast plan to prevent war, not only by direct force but also by promoting justice and freedom and social peace among the peoples, continued General Smuts,

No effort had been spared to broaden the plan into an effective machine both for security against war and for human advance. To this happy result the delegates, in particular of the United Kingdom as the greatest colonial world Power and the delegates of the Dominions, especially Australia, New Zealand as well as India, had made outstanding contributions for which he gladly paid his warm tribute.

More was needed than a machine of peace. Unless a spirit of co-operation was there the best plan or machine might fail. It was for the peace-loving peoples to see that the great peace plan was backed with all their heart and soul. All the social and political and spiritual forces of their peoples should be mobilised behind this plan.

For this total mobilisation of the human spirit for peace, they must look to all who laboured in the wider sphere of human advance— to the press, the church, schools and universities and to all intellectual forces, all the vast network of social and moral agencies which were the support of civilisation.

Trusteeship System under the New League

The basic objectives of the trusteeship system, established by the Charter of the United Nations (details of which appeared yesterday) are:

(A) To further international peace and security;

(B) To promote the political, economic, social and educational advancement of the inhabitants of the trust territories and their progressive development towards Self-Government or Independence, as may be appropriate to the particular circumstances of each territory and its people and the freely expressed wishes of the people concerned, and as may be provided by the terms of each trusteeship agreement;

(C) To encourage respect for human rights and for fundamental freedoms for all, without distinction as to race, sex, language or religion, and to encourage recognition of the interdependence of the peoples of the world; and

(D) To ensure equal treatment in social, economic and commercial matters for all members of the United Nations and their nationals, and also equal treatment for the latter in the administration of justice.

The trusteeship system shall apply to such territories in the following categories as may be placed thereunder by means of trusteeship agreements:

(A) Territories now held under a mandate,

(B) Territories which may be detached from enemy States as a result of the Second World War; and

(C) Territories voluntarily placed under the system by States responsible for their administration.

It will be a matter for subsequent agreement as to which territories in the foregoing categories will be brought under the trusteeship system and upon what terms.

The trusteeship system shall not apply to territories which have become members of the United Nations, the relationship among which shall be based on respect for the principle of sovereign equality.

The terms of trusteeship for each territory to be placed under the trusteeship system, including any alteration or amendment, shall

be agreed upon by the States directly concerned, including the Mandatory Power in the case of territories held under a mandate by a member of the United Nations.

President Truman on Charter

Calling the Charter "a great instrument for peace and security and human progress in the world," President Truman said, "If we should falter in future in our will to use it, millions now living will surely die."

The President in his speech made these points:

Between the victory in Europe and the final victory in Japan in this most destructive of all wars, you have won a final victory against war itself.

It was the hope of such a Charter to help sustain the courage of the stricken peoples throughout the blackest days of the war. For, it is the declaration of a great faith by the nations of the earth—a faith that war is not inevitable, a faith that peace can be maintained.

Urging all nations to ratify the Charter quickly, the President expressed his confidence that an overwhelming sentiment of the people of the United States and of their Senate and representatives favoured immediate ratification.

"Upon all of us in all our countries is now laid the duty of transforming into action these words which you have written Upon our decisive action rests the hope of those who have fallen, those now living, and those yet unborn—the hope for a world of free countries with decent standards of living which will work and co-operate in a friendly, civilised community of nations.

"This new structure of peace is rising upon strong foundation. Let us not fail to grasp this supreme chance to establish a world-wide rule of reason—to create enduring peace under the guidance of God."

President Truman who ended with a warning against attempts by forces of reaction to split the United Nations as under went on: "This Charter like our own constitution will be expanded and improved as time goes on. No one claims that it is now a final or a perfect instrument. We have tested the principle of co-operation in this war and have found that it works. United strength in war forced Germany to surrender. United strength will force Japan to surrender."

President Truman warned that if they failed to use the great instrument for peace created at San Francisco, "we shall betray all those who have died in order that we might meet here in freedom and safety to create it. If we seek to use it selfishly—for the advantage of any one nation or any small group of nations—we shall be equally guilty of that betrayal. Successful use of this instrument will require the united will and firm determination of the free peoples who have created it. The job will tax the moral strength and fibre of us all.

"Out of this conflict have come powerful military nations fully trained and equipped for war. But they have no right to dominate the world.

"It is rather the duty of these powerful nations to assume responsibility for leadership towards a world of peace. That is why we have here resolved that power and strength shall be used not to wage war but to keep the world at peace and free from fear of war.

"All Fascism did not die with Mussolini. Hitler is finished, but the seeds spread by his disordered mind have a firm root in too many fanatical brains. It is easier to remove tyrants and destory concentration camps than it is to kill ideas which gave them birth and strength. Victory on the battlefield was essential but it was not enough. For good peace, lasting peace, decent peoples of the earth must remain determined to strike down the evil spirit which has hung over the world for the last decade. The forces of reaction and tyranny all over the world will try to keep the United Nations from remaining united. They are trying even now. To divide and conquer was—and still is—their plan. They still try to make one ally suspect the other, hate the other, desert the other.

"But I know I speak for every one of you when I say that the United Nations will remain united. They will not be divided by propaganda, either before Japan's surrender or after"—*Reuter*

TO BE RATIFIED BY CONGRESS

San Francisco, June 27.

It was authoritatively stated here that President Truman himself will personally present the San Francisco Charter to the U.S. Congress next Monday.

This news came within a few hours of President Truman's call to the last plenary session of the United Nations Conference to ensure quick action for ratification and implementation of the Security Charter and while the 151 delegates were filing through "the signatorium" to set their nations endorsement to the Charter.

President Truman will probably address a joint session of the United States Senate and House of Representatives—and the Congress hopes to conclude its discussion of the Charter within a month of the President's address.

After the adjournment of the World Security Conference, President Truman left by private plane for Independence, Missiouri. He will make a halt at an undisclosed place *en route*.—*Reuter*.

UNITED NATIONS' ORGANIZATION OFFICIALLY BROUGHT INTO EXISTENCE

U.S Secretary of State's Declaration

Washington, Oct. 25, 1945.

The United Nations' Organisation was officially brought into existence at 3-17 a.m. (I.S.T.) to-day as the United States Secretary of State, Mr. James F. Byrnes, signed the Protocol of the deposit of ratifications.

Mr. Byrnes acknowledged the receipt of a majority plus the Big Five (Britain, United States, China, France and Russia) ratifications of the Charter which was drawn up at the San Francisco Conference.

The Protocol sets forth the fact that the requirements for the Charter's coming into force have been met and lists the ratification documents now in possession of the State Department with the original Charter. Facsimile copies of the Protocol will go to all Governments, which signed the Charter.

The last ratifications to arrive at the State Department were those of the Soviet Russian, Ukrainian and White Russian Republics,

bringing the total of nations which have ratified the Charter to 29 and thereby putting into force both the Charter and the Statute of the International Court of Justice.

The Charter is the instrument by which nations of the world seek to maintain international peace and security, to develop friendly relations between nations and promote international co-operation. The signatory nations agree to pursue these ends by taking collective action to prevent aggression and settle international disputes according to the principles of international law, and safeguarding the rights of all the people regardless of race, colour, religion or sex.

Article 110 of the Charter provides for its ratification and bringing into existence of the organisation upon the signature of the Big Five and a majority of the other nations.

"This is a memorable day for the peace-loving people of all nations," said Mr. Byrnes as flanked by high officials and faced with a barrage of comeras he made his speech. "The United Nations' Charter is now part of the law of nations, but as I have frequently said, the maintenance of peace depends, not upon any document, but upon what is in the minds and hearts of men. But the peoples of earth, who yearn for peace, must be organised to maintain that peace. This Charter provides the organisation. In the days ahead, we will do our utmost to keep the peace in co-operation with other nations and to promote the well-being of all peoples," he said

Eeven as Mr. Byrnes was putting his pen to the paper, Democrat Glenn Taylor from Idaho was telling the Senate: "The United Nations' Organisation may have been adequate at San Francisco but agreements between Sovereign nations won't suffice in this atomic age which has come into being since the San Francisco Conference."

Mr. Taylor introduced a resolution calling upon the United States to exert every effort in the direction of a World Government to cope with the problems of the atomic age.—*Reuter*.

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